

Bristol Arena Outline Business Case Final Report November 2013



Basis of information

It is not possible to guarantee the fulfilment of any estimates or forecasts contained within this report, although they have been conscientiously prepared on the basis of our research and information made available to us at the time of the study.

Neither Davis Langdon or IPW..., nor the authors, will be held liable to any party for any direct or indirect losses, financial or otherwise, associated with any contents of this report. We have relied in a number of areas on information provided by the client (and other organisations), and have not undertaken additional independent verification of this data in all cases.

Some of the information contained in this report is considered confidential and commercially sensitive, specifically the consultation with arena promoters and operators and arena business plans. The author's permission must be sought before releasing any of this information outside of the Council.

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ES. Executive Summary

IPW... and Davis Langdon were appointed as Financial and Commercial advisors to Bristol City Council ('the Council') in May 2013 in relation to the development of a large scale arena in the city. The first stage of the commission is the production of this Outline Business Case (OBC).

The OBC builds upon an initial feasibility study undertaken by the project team between May and September 2012. The feasibility study found that there was: a high level of support from stakeholders for an arena development; a strong market in Bristol for an arena; interest from major operators in leasing the arena and; a requirement for public sector funding to support the project. The vision identified as part of the feasibility study process is set out below.

The delivery of an arena for Bristol on the Temple Quarter site, acting as a major catalyst and economic driver for the new Enterprise Zone. The arena should be commercially driven, delivered quickly and on budget, and be sustainable at no on-going revenue cost to the Council and its partners.

Following the election of the first Mayor of Bristol and the decision to move forward with the arena project, the Council has developed the original vision statement and expanded it to include that the arena should provide:

- a return again, Bristol experience that provides opportunity for the community use
- a building that is flexible in design and content, is of high quality and deliverable from a financial and operational perspective
- an arena with an appropriate and enhancing interface with the rest of the Diesel Depot site

Site

The only site under consideration for the arena development is the Diesel Depot site, located within Bristol Temple Quarter and part of the Temple Quarter Enterprise Zone (TQEZ). It is approximately 9 acres and benefits from excellent transport links. The HCA own the site and will facilitate the Council developing plans for an arena on the site, up until it needs to market the site, at which point, the Council would need to make a decision regarding purchase of part of the site for an arena. Should the arena be developed on site, it should, as has been proven in other locations in the UK, improve the value and market interest in the wider site. The Council, as the potential arena funder/developer, should consider how it might tap into this overall or increased value to use as part of the project funding mix.

Consultation

A total of 25 local and regional stakeholders and potential partners were consulted during the OBC. The key findings can be summarised as follows:

- strong support for the development of an arena in Bristol
- the arena should have a distinctly Bristol flavour, be loved by local people and provide employment for local people

- the Diesel Depot is a good site for an arena
- venue design is considered important, the arena building should be flexible enough to accommodate a wide variety of events and be able to respond to any future trends
- the arena should maximise non-event day/ community usage - use of flexible space identified as desirable by many consultees (leisure, music, education, lifelong learning, businesses)
- the arena should fit into the cultural infrastructure of the city, complimenting other local facilities where possible
- the programme of events should be wide ranging, including all of the typical events you would expect in an arena, whilst fitting within the ecology of the city, building on, and linking to, what is already happening
- there is limited support for the arena to have a particular theme (an item specifically tested with consultees)
- needs of the local circus community are for smaller performance, rehearsal and education space for regular usage, which does not fit with the irregular use of a very large facility that is typical of an arena, however a separate space for the circus community could assist in delivering the wider project objectives (e.g. activate the area on non-event days etc.)
- all forms of management should be considered, it should be ensured the arena proposal is attractive to operators
- key risks to delivering the arena were identified as; the arena being underutilised, impact on existing facilities, securing the funding required and Cardiff proceeding with its arena development.

Demand assessment

The three main determinants of market demand for an arena are catchment, competition and product availability. The key findings in relation to Bristol are as follows:

- the Bristol catchment is of sufficient scale, of an appropriate demographic and propensity to attend arena events to support a large scale arena
- the current level of local (i.e. in and around Bristol) competition is at the smaller end of the performance venue scale, and is not likely to compete with an arena. The nearest large scale venues are in Cardiff (43 miles), Exeter (78 miles) and Birmingham (95 miles)
- we would expect a new arena in Bristol to complement existing venues in the city such as Colston Hall and the Hippodrome
- the nature of arenas is that they will compete geographically for audiences, and nationally for product. There is sufficient audience potential in Bristol to support an arena, despite the presence of an (7,500 capacity) arena in Cardiff. However, we understand that Cardiff still has a desire to develop a 10,000+ seat arena and conference centre, supported by the Welsh Parliament, which, should it go ahead could have an impact upon the performance of an arena in Bristol.
- the overall event market has remained relatively strong over the last five years. While the economic downturn appears to have had an effect since 2009's record performance levels, event

availability and event demand is nevertheless solid and venues can expect to have strong event programmes in the right market,

- market analysis and feedback from promoters suggests that the focus of any venue programme for Bristol would be music and entertainment (for which Bristol is already seen as a strong city), there is not a strong demand for any sports events, either anchor tenants or major sporting events
- promoter feedback suggests the venue scale should be a maximum of 12,000 but should be able to offer smaller scale capacities of circa 5,000 – 6,000. Key to design is flexibility.

Bristol, along with Edinburgh, is considered as the major UK city that does not have an arena that could commercially support one.

Soft market testing

A soft market testing exercise was undertaken with major international operators and other UK operators that had expressed an interest in the project to determine their views on the Bristol market and level of interest in operating the arena across a range of contract types.

The findings of the consultation exercise are summarised below:

- Bristol catchment is strong and can sustain an arena venue, however it is considered important that Bristol develops before Cardiff upscales
- Bristol will be, to some degree, in competition with Cardiff and to a lesser extent Birmingham however, the impact is considered minimum. There will be limited competition for product with local venues due to scale
- Bristol would compete well for regional tours, but is not considered a primary 'A' market as are London and Manchester. The programme is likely to be music and entertainment focussed. The opportunity to pick up minor conference business was highlighted.
- the optimum scale for an arena is between 10,000 capacity (minimum) and 13,000 capacity (maximum), with most operators suggesting between 10,000 seated and 12,000 total capacity
- there was no support for a 360 degree arena configuration, some support for a supertheatre configuration, with most operators happy with a horseshoe configuration
- the events potential for Bristol ranges from 80 - 130, two of the three who provided figures suggested less than 100 events per annum as a maximum.
- whilst operators understood the Council's desire for non-event day/ community use, there was mixed feedback about how achievable this would be in an arena (the main concerns being any disruption to arena operations and the cost effectiveness of using a large venue for smaller community activities). Suggestions to resolve this included the availability of additional space that could be easily and cost effectively sectioned off for community use
- there was mixed reception to the potential of a circus themed arena; interest will be dependent on what it actually means and whether it interferes with overall programming
- there is no appetite for the provision of a conference or convention centre within the arena
- flexibility of the venue is key to its success.

There is significant market interest in the operation of an arena in Bristol as illustrated in Table ES 1 overleaf. This is a very strong position for the Council to be in and is positive for the overall development of the arena.

Table ES1 Operator interest

Operator	Lease	Management Agreement	SPV (specific services)
Operator 1	✓	✓	Not strong
Operator 2	✓	✓	Unlikely
Operator 3	✓	✓	✓
Operator 4	✓	✓	✓
Operator 5	Subject to term/ structure	✓	Possible
Operator 6	✓	✓	Possible
Operator 7	✓	✓	✓
Operator 8	N/A	Possible	✓

Configuration, scale and options

The market analysis and consultation undertaken during the feasibility study and the OBC supports the development of an arena of approximately 12,000 capacity for Bristol.

The analysis also highlighted the importance of the following characteristics relating to the arena configuration; suitability for entertainment and typical arena programming, audience experience, flexibility, scalability, future proofing and deliverability. An assessment of the three typical arena configurations, namely 360 degree/ sports arena, super theatre and horseshoe, determined that a horseshoe configuration was the most suitable when considering all of these characteristics.

Consultation has highlighted the aspiration for maximising community use and non-event day usage of the arena. Operator feedback suggests that it is not cost effective to use the arena for smaller community type uses, when compared with the other types of venue where these activities take place.

Therefore, two facility options were identified, as follows:

- **Option 1:** 12,000 capacity horseshoe arena
- **Option 2:** 12,000 capacity horseshoe arena with an additional 1,000sqm of space. The additional space could be provided at the front of the building and be easily separable/ divisible so that it could be hired cost effectively by the community. It is also envisaged that it includes a café which is open every day to service community use.

Each option would have a fully seated (end stage) capacity of 10,000, with a maximum seated and standing (end stage) capacity of 12,000.

Each option has been combined with three types of arena management to create six overall options for comparison, as shown in Table ES2.

Table ES2 Arena options for consideration

Option	Capacity/ configuration	Additional facilities	Management
1a	12k horseshoe	None	Lease
1b	12k horseshoe	None	Management Agreement
1c	12k horseshoe	None	SPV
2a	12k horseshoe	1,000 sqm for community use	Lease
2b	12k horseshoe	1,000 sqm for community use	Management Agreement
2c	12k horseshoe	1,000 sqm for community use	SPV

These options are the subject of a full options appraisal, detailed later in this section, informed by the following capital cost estimates and business plan projections.

Capital costs

AECOM has estimated the capital cost for a 12,000 capacity arena in a horseshoe configuration based on a number of agreed assumptions. Table ES3 sets out the estimated arena outturn costs for Option 1 of £80.25m. In addition on-site works have been defined and estimated by AECOM and the off-site works (notional allowance of £5m) has been specified by the Council. We have also been asked to include for the Council's project development costs, currently estimated at £1.8m.

The total project outturn costs allowing for construction, fees, development contingency, inflation and on-site and off-site costs and Council development costs are estimated as £90.16m.

Table ES3 Project outturn costs

	Configuration	Horseshoe
	GIFA	24,400m²
Total seated and standing capacity for end stage event		12,000
End stage all seated capacity		10,000
Arena base build cost (August 2013)		£55,072,000
Fees at 15%		£8,261,000
FF&E at 5%		£3,167,000
Development Contingency at 10%		£6,650,000
Inflation from August 2013 to November 2015		£7,100,000
Arena outturn cost (November 2015)		£80,250,000
Land value		£0
On and off site works		£8,110,000
Council's project development costs		£1,800,000
Project outturn cost		£90,160,000

These costs are indicative, based on benchmark information of successfully delivered arenas both in the UK and across Europe. No design has been undertaken at this stage.

Management options

The management solution for an arena is informed by a series of factors, including:

- appetite for risk
- availability of, and requirement for, guaranteed income to support borrowing/repay investment
- desire for control over operations and programming
- private sector appetite for the project.

Three management options have been considered for Bristol; operator lease, management contract and, arm's length company/ Special Purpose Vehicle (SPV). The alternative operating models have varying risk and reward profiles, which must be evaluated in light of the Council's specific requirements for the project and how the required outcomes are achieved.

Historically, many authorities have preferred to outsource arena management to an established international organisation that has the key personnel, market knowledge, connections and processes, to ensure that the arena is effectively managed. This can either be done on a management contract basis or via a lease.

In strong markets, operators have shown that they are willing to take the risk on an arena's financial performance by guaranteeing an annual lease payment to the building owner. This money, backed by an international covenant, can be used to fund large capital sums through the public sector's prudential borrowing capabilities. This model as a result retains less involvement of/ control by the authority, though specific requirements can be written into the operator contract (albeit that this might impact the financial offer).

Each authority must balance risk and reward depending on the specifics of their project. One of the key items to facilitate this is a robust and detailed business plan that projects profit and loss over the long term to assist in the assessment of the most appropriate model, though the Council's political drivers and project vision will ultimately also inform the decision. A business plan has been developed for each of the management scenarios set out above, and each is assessed in relation to the Council's overall objectives in the following sections.

Operational business planning

A 10 year business plan has been produced for each of the options identified in Table ES2 provided earlier in this section.

Key assumptions for each of the options business plans have been developed, reflecting any variance between the options, for example difference in pre-opening costs, event programme, venue hire income, , naming rights, merchandising and box office income, , maintenance costs, lifecycle costs, rent to the Council.

Table ES4 overleaf sets out a summary of the annual income received by the Council in year 3, under each option presented above.

Table ES4 Income received by the Council in year 3

Option	Income to the Council year 3	Comments
Option 1a (lease)		Assumed to be guaranteed by the Operator
Option 1b (management agreement)		Assumed to be at the Council's risk (albeit with a partner to deliver)
Option 1c (SPV)		Entirely at the Council's risk
Option 2a (lease)		Assumed to be guaranteed by the Operator
Option 2b (management agreement)		Assumed to be at the Council's risk (albeit with a partner to deliver)
Option 2c (SPV)		Entirely at the Council's risk

From purely a business planning perspective, the management agreement options provide a potentially higher level of income to the Council, however it should be noted that:

- these figures do not include the investment in pre-opening costs, fit out of the arena or set up costs in either the management agreement or SPV options (these are covered by the operator in the lease)
- there is no adjustment for risk/ sensitivity in terms of delivering the projections identified, and in the case of the SPV, these will be entirely at the Council's risk.

Both of these items are taken into consideration in the overall options appraisal below.

With an arena, car parking also has significant commercial potential. Based upon the recommendations in the feasibility study, the Council has progressed the project on the assumption that car parking income generated by the arena can be captured and used to support part of the borrowing required to fund the project. There are various options / mechanisms being explored as to how the Council will be able to collect the income generated. Table ES5 below sets out the net parking income created by each of the six options under consideration.

Table ES5 Car parking income generated by each option

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	£	£	£	£	£	£	£	£	£	£
Option 1a	474,198	561,299	673,859	690,706	707,973	725,673	743,814	762,410	781,470	801,007
Option 1b	483,029	574,876	692,414	709,725	727,468	745,654	764,296	783,403	802,988	823,063
Option 1c	377,828	474,286	589,310	658,373	698,226	715,682	733,574	751,913	770,711	789,979
Option 2a	474,198	561,299	673,859	690,706	707,973	725,673	743,814	762,410	781,470	801,007
Option 2b	483,029	574,876	692,414	709,725	727,468	745,654	764,296	783,403	802,988	823,063
Option 2c	377,828	474,286	589,310	658,373	698,226	715,682	733,574	751,913	770,711	789,979

The differences in the income generated by each option are created by the differences in the event programmes. It can be seen that the slower programme build up for the SPV option has a significant impact on car parking income in the early years.

Options appraisal

A full appraisal of the six arena options has been undertaken including both a qualitative and financial assessment of each option and subsequently, combining the findings to identify a preferred option for further development. The qualitative assessment has a 40% overall weighting and the financial assessment a 60% overall weighting.

Qualitative appraisal

The qualitative criteria against which the options were assessed, and their weighting (relative importance) are set out in table ES6.

Table ES6 Qualitative evaluation criteria and weighting

Qualitative Evaluation Criteria	Weighting
1. Overall fit with BCC Vision statement	25%
2. Deliverability	25%
3. Potential to maximise community use	10%
4. Council input/control programme & operations	20%
5. Operational risk transfer	20%

Each of the project options was appraised and allocated a score against each of the criteria above; a summary of which is provided in table ES7 below.

Table ES7 Summary of qualitative assessment scores

		Option 1a		Option 1b		Option 1c		Option 2a		Option 2b		Option 2c	
		12k		12k		12k		12k +1,000 sqm		12k +1,000 sqm		12k +1,000 sqm	
		Score	Weighted %	Score	Weighted %	Score	Weighted %	Score	Weighted %	Score	Weighted %	Score	Weighted %
Qualitative assessment													
Fit with overall vision	25%	3	15%	4	20%	4	20%	3	15%	4	20%	5	25%
Deliverability	25%	5	25%	4	20%	3	15%	5	25%	4	20%	3	15%
Community use	10%	2	4%	3	6%	4	8%	3	6%	4	8%	5	10%
Council control/ input	20%	1	4%	3	12%	5	20%	1	4%	3	12%	5	20%
Risk transfer	20%	5	20%	3	12%	0	0%	5	20%	3	12%	0	0%
TOTAL score	100%	16	68%	17	70%	16	63%	17	70%	18	72%	18	70%
RANK			5		2		6		3		1		3

It can be seen from the table that:

- Option 2b scores the highest and Option 1b the next highest – both are the management agreement options, it can be seen that these score between 3-4 across all categories, whereas the other options score higher on some items and lower on others
- Option 2b scores higher than the equivalent option 1 (i.e. with the same management type) – this is because option 2 provides the additional opportunities for community use, which better meets the overall project vision and community use criteria.

Financial appraisal

At the Council's request, this OBC only considers the potential level of funding the arena and associated car parking will generate to support an annuity loan. The Council is investigating the other funding sources that will fill any required gap funding independently, including: a further loan supported by a combination of retained business rates from the TQEZ, additional or index linked income generated by the arena or additional Council income from other sources; further grant funding application to the Regional Growth Fund; and potential sale of Council land/ assets.

The financial appraisals identify the total cost of each project option and the maximum annuity loan amount that the option could support through income generation. This results in a residual funding requirement that will need to be met by the other methods set out above. Table ES8 and ES9 below present the outcome of the financial analysis. Table ES8 sets out the base position for each option, and table ES9 sets out the outcome with Optimism Bias and risk adjustments applied. The latter is to be included in the overall options analysis.

Table ES8 Summary of financial options appraisal (base position)

	Option 1a Lease	Option 1b Management A	Option 1c SPV	Option 2a Lease (+1k)	Option 2b Man A (+1k)	Option 2c SPV (+1k)
Total development costs	£90,510,000	£91,795,903	£92,089,434	£93,799,000	£93,799,000	£95,378,434
Less						
Annuity loan amount	£34,041,100	£43,650,270	£32,504,535	£34,840,993	£43,633,055	£32,877,870
FF&E contribution	£3,821,967	£0	£0	£3,951,745	£0	£0
Council development costs funded	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000
Gap funding requirement	-£52,396,933	-£47,895,633	-£59,334,899	-£54,756,262	-£49,915,945	-£62,250,564

It can be seen from table ES8 above that overall, Option 1 provides a lower gap funding requirement than Option 2, when assuming the same type of management. It can also be seen that before applying any Optimism Bias or risk adjustment, Option 1b and 2b (management agreement) provides the lowest funding gap (at £47.9m and £49.9m respectively) with Options 1a and 2a (lease) providing the second lowest gap funding requirement (at £52.4m and £54.8m respectively). SPV options 1c and 2c result in a funding gap of £59.3m and £62.3m respectively.

The Optimism Bias applied to all options was a 13% increase in total development costs (agreed with the Council as representative of the Council's delivery/performance on previous schemes). A risk adjustment was applied to the income received by the Council to support the annuity loan of 5% for the arena lease agreement, 20% for the arena management agreement, 50% for the arena SPV and 25% to all car parking income. The differences in risk adjustment applied to the various management options reflect the different risk profiles of each option.

Table ES9 Summary of financial options appraisal (including optimism bias and risk adjustment)

	Option 1a Lease	Option 1b Management A	Option 1c SPV	Option 2a Lease (+1k)	Option 2b Man A (+1k)	Option 2c SPV (+1k)
Total development costs	£102,276,300	£103,729,370	£104,061,060	£105,992,870	£105,992,870	£107,777,630
Less						
Annuity loan amount	£30,340,620	£34,406,855	£18,436,870	£31,100,520	£34,393,080	£18,623,540
FF&E contribution	£4,318,823	£0	£0	£4,465,472	£0	£0
Council development costs funded	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000
Gap funding requirement	-£67,366,857	-£69,072,515	-£85,374,190	-£70,176,878	-£71,349,790	-£88,904,090
RANK	1	2	5	3	4	6

Table ES9 above identifies that, when including the relevant Optimism Bias and risk adjustments, the options rank as follows:

- Option 1a (lease) - £67.4m gap funding requirement
- Option 1b (management agreement) – £69m gap funding requirement
- Option 2a (lease) - £70.2m gap funding requirement
- Option 2b (management agreement) – £71.3m gap funding requirement

- Option 1c (SPV) - £85.4m gap funding requirement
- Option 2c (SPV) - £88.9m gap funding requirement.

The financial appraisal has a weighting of 60% of the overall evaluation. The financial scoring for the options appraisal has been undertaken on a relative basis. The lowest gap funding requirement is awarded 100% and all other options are scored based upon the percentage difference to the lowest option. Table ES10 sets out the relative financial scores for each option based upon the Optimism Bias and risk adjusted assessments.

Table ES10 Financial appraisal scores

	Option 1a	Option 1b	Option 1c	Option 2a	Option 2b	Option 2c
	12k Lease	12k Man	12k SPV	12k +1,000 sqm	12k +1,000 sqm	12k +1,000 sqm
Gap funding requirement	£67,366,857	£69,072,515	£85,374,190	£70,176,878	£71,349,790	£88,904,090
TOTAL score	100%	97%	73%	96%	94%	68%
RANK	1	2	5	3	4	6

Combined scoring

Table ES11 sets out the outcome of the combined qualitative and financial options appraisal.

Table ES11 Overall summary of options appraisal

	Option 1a	Option 1b	Option 1c	Option 2a	Option 2b	Option 2c
	12k Lease	12k Man Agreement	12k SPV	12k +1,000 sqm Lease	12k +1,000 sqm - Man Agreement	12k +1,000 sqm Lease
Qualitative assessment (40%)						
Fit with overall vision (10%)	6.0%	8.0%	8.0%	6.0%	8.0%	10.0%
Deliverability (10%)	10.0%	8.0%	6.0%	10.0%	8.0%	6.0%
Community use (4%)	1.6%	2.4%	3.2%	2.4%	3.2%	4.0%
Council control/ input (8%)	1.6%	4.8%	8.0%	1.6%	4.8%	8.0%
Risk transfer (8%)	8.0%	4.8%	0.0%	8.0%	4.8%	0.0%
Sub-total (out of 40%)	27%	28%	25%	28%	29%	28%
Financial assessment (60%)						
Gap funding requirement	60.0%	58.5%	44.0%	57.5%	56.5%	40.8%
TOTAL	87.2%	86.5%	69.2%	85.5%	85.3%	68.8%
RANK	1	2	5	3	4	6

It can be seen from this analysis, that the lease option 1a scores the highest overall, with management agreement option 1b scoring only 0.7% less in second place. Options 2a and 2b also score well and are closely placed behind options 1a and 1b. The SPV options score the lowest by more than 15%.

In all cases, Option 1 scored better than Option 2 when considering the same management type.

Preferred Option

Based upon the options analysis undertaken, the preferred option is Option 1a, 12k capacity horseshoe arena

operated under a lease. It scored the highest overall, and had the lowest gap funding requirement once Optimism Bias and risk adjustment were applied.

Using the preferred option 1a base business plan as the basis, sensitivity analyses have been undertaken in relation to arena income and car parking spaces available. The results of this analysis identify:

- a 10% reduction in income and 100 less car parking spaces results in a gap funding requirement of **£63.6m** compared with £52.4m (base case not adjusted for risk or Optimism Bias)
- a 10% increase in expenditure and 100 less car parking spaces results in a gap funding requirement of **£60.7m** compared with £52.4m (base case not adjusted for risk or Optimism Bias)

The sensitivity analysis illustrates the impact of any significant shifts in the arena operating market. The Council's exposure to this risk is minimised through procuring a lease agreement.

Procurement and delivery

Should the outline business case be approved, the project will quickly move into its procurement stage, commencing first with the operator, followed by the design team and finally the contractor who will build the arena. The procurement options available and the recommended approach to procuring each of the partners for the Bristol arena has been explored in detail.

Operator

Based on the work undertaken to date, the preferred option for the operation of the Bristol arena is a lease. This will transfer the responsibility for the operation of the arena to a specialist company and help to ensure that it is sustainable and successful. The lease will provide for commercial terms to include guaranteed payments to the Council that would be used to support borrowing to part fund the capital cost of the arena. We recommend, as was the case in developing Leeds and Copenhagen arenas that the operator be procured at the beginning of the process. This enables the operator to input into the specification and design where necessary, in order to maximise the building's efficiency and maximise income, in turn allowing the operator to put forward a strong commercial offer.

It is important that the Council gets legal advice on whether or not to procure the arena operator through an OJEU advert and process. Whether or not the Council decides to advertise in the OJEU, it will hold some form of competitive process. This will be important to maximise the potential deal for the Council, and should prove successful in this recognising the high level of interest shown by the market.

Designer procurement

With arena development it is very important to employ an experienced design and architectural team. Their specific experience should be in arena design or there is a significant risk of design failure and cost overruns. This will also impact upon the operator appetite for the project.

The designer's services fall within the definition of services in the EU regulations and the value will exceed the threshold, therefore these services must be advertised in the OJEU and comply with EU Procurement Regulations. It is usual to use the OJEU Restricted Route, whereby a Contract Notice is placed, expressions of interest are received and evaluated, a shortlist is drawn up and tenders are invited, bids are assessed and a recommendation is made.

Another option would be to hold an architectural competition, which is permitted under the EU Procurement Directives. Such a competition would use the usual short listing approach to create a list of the most capable companies and then they would be invited to prepare designs for the arena, with the best design scoring the highest qualitative score and a commercial element then being applied to the level of fees submitted.

Contractor procurement

The contractor's works fall within the definition of works in the EU regulations and the value will exceed the threshold, therefore these works must be advertised in the OJEU and comply with EU Procurement Regulations.

Whilst design and build is described as having issues in delivering the level of quality required for a complex building this is a general statement; by developing the design to a high level of detail before handing it to the contractor, and novating the design team to the contractor to complete the design, high quality can be achieved.

On this basis a design and build approach is recommended for Bristol arena with the design developed to a high level of detail prior to being handed to the contractor. We recommend that the OJEU Restricted Route is used with a pre-qualification stage and then either a one stage or two stage approach to appointing the contractor.

We also recommend that the designers are novated or nominated to the contractor to maintain design continuity, with technical compliance monitoring being undertaken by a shadow team appointed by the client group after novation of the existing team has occurred. This could be done at the start of the second stage or at its end. We would favour the start so that the contractor is responsible for making sure the design team produce the scheme design information for tender in a timely and co-ordinated manner.

Project Risks

There are a wide range of risks that can affect the deliverability of a new arena in Bristol. Risks which are specific to the project and carry a high level of probability of occurring and/or a high impact if they do occur have been identified in the main report alongside the likely timeframe for these risks and the strategy for managing them.

A selection of key risks includes the following:

ES 12 Selection of key risks

Description	Likelihood	Impact	Impact	Strategy
Cardiff proceeds with plans to develop a new arena	Medium	High	Could affect the viability of an arena in Bristol and the level of commercial deal that could be achieved with an arena operator.	Progress with Bristol development faster and retain larger capacity plans
Arena market is saturated and Bristol faces stiff competition to attract acts	Medium	High	Ability to achieve business case projections & arena viewed as underused	Transfer operational risk to operator for a fixed annual payment. Incentives included in the contract
Arena design and programming deviates from accepted market position	Medium	High	Increases project risk e.g. desire to "Bristolise" the project creates uncertainty and complexity for potential Operators.	Listen to the operator feedback on "accepted" market position and approaches. Engage operator as early as possible in the design process and clear parameters included in the design competition
Additional project costs identified	Medium	High	Cost of the project and the residual funding gap increases.	Continue to identify all likely costs. Work to identify third parties to meet any non-arena costs
Construction costs exceed projections	Medium	High	Increased residual funding requirement	Control expectations, ensure specification is functional, and monitor key cost drivers

Recommendations and next steps

Based upon the outcome of the OBC process, we recommend the following:

- that Option 1a (12k capacity horseshoe arena operated via a lease) is adopted as the preferred option for development, based upon the findings of this OBC
- that the Council agree to market the arena lease shortly through a competitive process (final format to be agreed), and commence preparing procurement documentation
- the operator procurement process includes the ability to explore how to maximise the community use of the venue through operator proposals
- that the Council begin to plan its approach to the design and construction procurement and design competition

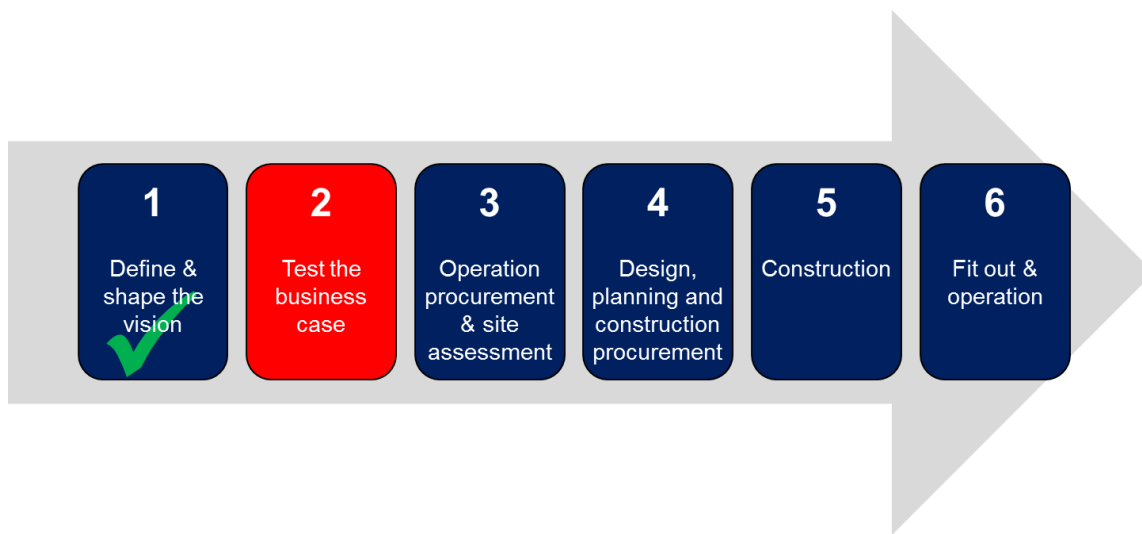
- that the Council continues to develop a car parking strategy for the wider TQEZ site, to ensure that the financial impact of the arena can be captured
- that the Council continue to explore mechanisms to deliver the project gap funding requirement.

1. Introduction

IPW... and Davis Langdon were appointed as Financial and Commercial advisors to Bristol City Council ('the Council') in May 2013 for the development of a large scale arena in the city. The first stage in delivering this commission is the production of an Outline Business Case (OBC).

This report is the culmination of a 12 week study to prepare an OBC for an arena in Bristol. It will be used by the Council to confirm; the most appropriate arena option, operating structure and procurement strategy. The business case is the second stage of a six-stage delivery process as illustrated in Figure 1.1 below.

Figure 1.1 Six stage delivery process



This OBC builds upon an initial feasibility study undertaken by the project team between May and September 2012.

This section provides a summary of the feasibility study findings and set out the scope of this OBC.

Stage 1: Feasibility study – key findings

The feasibility study specifically considered the potential for an indoor arena to be developed at the Diesel Depot (adjacent to Temple Meads station) as part of the Temple Quarter Enterprise Zone (TQEZ). The study was intended to provide the Council with a go-no go assessment of the potential to develop an arena in the city. The key findings to emerge from the feasibility study were:

- there was a high level of support from consultees for the development of an arena in Bristol, on the Diesel Depot site
- local competition is at the smaller end of the performance venue scale and is not likely to compete with an arena
- the catchment and demographic of Bristol is sufficient to support a large scale arena. There is sufficient audience potential, despite the presence of a 7,500 capacity arena in Cardiff. This study includes further analysis of the Cardiff Motorpoint Arena as a potential competitor to Bristol (Section 5).

- operator and promoter feedback supported the market need for an arena in Bristol; suggesting the focus of any venue programme would be music and entertainment based as no strong demand was identified for either anchor tenants or major sporting events. Feedback identified that Bristol would be capable of securing a similar event programme to other UK regional venues and should have a 10,000-12,000 capacity
- the arena is expected to make an operating profit however, the operating surplus would not cover the cost of development therefore part funding from the public sector would be required.

The study identified potential demand for conference and exhibition facilities within the city. Following the feasibility study, the provision of such facilities was considered further in a separate piece of work undertaken by the IPW.../AECOM team (Bristol Conference/ Exhibition Centre, October 2012). The key findings of this piece of work were as follows:

- Bristol does not have a conference/ exhibition venue capable of attracting and hosting large events, as other large UK cities do
- the study considered the provision of a 1,250 capacity auditorium and associated facilities (the scale required to compete with other leading UK cities)
- Bristol's overall (city centre) hotel stock could support a conference facility, however there are no appropriate hotels within the vicinity of the Diesel Depot site, therefore a headquarters hotel would need to be developed to support the venue (potentially adding additional costs to the public sector, as recent experience has shown that 4* hotel development outside London is commercially challenging)
- the traffic and transport infrastructure, in particular Bristol Airport would need to be improved to maximise the success of any conference centre
- the capital cost (construction and fees only) of an appropriate scale conference centre was estimated at £59.3m, this cost could be reduced to circa£46m if developed in combination with the arena
- a well operated conference centre could break-even or potentially return a small profit, but only sufficient for reinvestment in the facility, and it would not be sufficient to contribute to repay any debt required to finance the development of the facility
- in addition to the operation of the conference centre, it was estimated that the Council would need to budget for an additional £750k per annum to provide as a subvention budget and to fund an improved Bristol Conference Bureau – without which, Bristol would not be able to compete with other major cities for conferences.

The overall findings in relation to the conference and exhibition facilities were that, whilst they could provide a significant economic benefit to the city, they would add a minimum of £46m to the capital cost of any combined project and cost the Council a minimum of £750k per annum in operation. It is therefore considered that the conference and exhibition facilities should not be considered any further as part of this business case, as they would make arena project less deliverable and potentially undeliverable with regards to affordability.

Six main arena options of various configurations and scale were analysed. These were; a super theatre with 10,000, 12,000 & 14,000 capacity and a horseshoe configuration with 10,000, 12,000 & 14,000 capacity. An assessment of a lower cost venue option specifically developed by the project team was also introduced. The feasibility study provided high level estimates of construction costs, likely outturn costs, potential arena rental income and an estimate of public sector funding required. Table 1.1 below provides a summary of the key findings.

Table 1.1 Summary of options considered at Feasibility Stage

	Horseshoe			Supertheatre		
	Option A	Option B	Option C	Option D	Option E	Option F
	10,000	12,000	14,000	10,000	12,000	14,000
Total capacity	10,000	12,000	14,000	10,000	12,000	14,000
Max seated capacity	9,000	11,000	13,000	9,500	11,250	13,250
Arena build cost (Q3 2012)	£45,500,000	£55,300,000	£65,500,000	£43,825,000	£52,000,000	£62,900,000
Arena on-costs	£16,567,130	£20,135,435	£23,849,385	£15,957,241	£18,933,863	£22,902,692
Arena outturn cost (Q3 2014)	£62,067,130	£75,435,435	£89,349,385	£59,782,241	£70,933,863	£85,802,692
Land value	£0	£0	£0	£0	£0	£0
On and off site works	£8,134,918	£8,134,918	£8,134,918	£8,134,918	£8,134,918	£8,134,918
Project outturn cost	£70,202,048	£83,570,353	£97,484,303	£67,917,159	£79,068,781	£93,937,609
Operator rent (per annum)	£1,052,700	£1,315,875	£1,579,050	£1,052,700	£1,315,875	£1,579,050
Capitalised operator rent	£14,737,800	£18,422,250	£22,106,700	£14,737,800	£18,422,250	£22,106,700
Operator FF&E contribution	£2,955,578	£3,592,164	£4,254,733	£2,846,773	£3,377,803	£4,085,842
Funding requirement	-£52,508,670	-£61,555,939	-£71,122,870	-£50,332,585	-£57,268,728	-£67,745,067

Note: these figures have been updated as part of the OBC process

The development of a 1,000 space car park would reduce this funding gap by £11m for the six primary options. It was considered the 12,000 capacity options best met the market demand identified.

In summary, the feasibility study highlighted a positive demand for the arena, and provided an estimate of the funding required from the Council to deliver it.

Following the production of the feasibility study, the first Mayor of Bristol was elected who is a very strong advocate of the case for an arena in Bristol. He has brought with him a range of ideas for testing to shape the delivery of an arena for Bristol.

The Council, having reviewed the feasibility study internally, and with the full support of the newly elected Mayor decided to progress plans for an arena in Bristol. One of the early steps, is the production of this OBC.

Stage 2: Outline Business Case - scope of work

The feasibility study included a significant amount of research and analysis, in particular relating to the market for an arena in Bristol. Therefore, the research undertaken and principles established during the feasibility stage have been used as the starting point for developing the OBC. Where relevant, information has been updated and

supplemented to reflect 2013 trends and any additional information that has become available. The scope of the OBC was agreed with the Council's project team and is summarised below:

- review all market research and analysis, and update as appropriate
- revisit all consultation with key stakeholders, arena operators and promoters
- review the need for the arena to be flexible to accommodate a wide range of typical arena uses including; music, concerts, family entertainment shows, temporary ice events and sports shows. Consideration should also be given to ensuring the arena is able to accommodate future events that are unknown at this stage
- potential themes/ ideas to explore during the process include:
 - consider how to maximise the utilisation of the arena on non-event days
 - explore the potential for the arena to be 'themed' or have a themed use
- test the capacity, layout, hospitality and VIP assumptions developed at the feasibility stage in light of revised aspirations / vision arising from the revised, or additional, consultation undertaken
- identify and review the different arena options for further analysis
- update the capital costs provided as part of the feasibility study to reflect the arena options developed in this business case
- explore the advantages and disadvantages of different operational models available to the Council, including a lease, management agreement or Special Purpose Vehicle (SPV)
- develop full operating business plans for the different arena options and operational models
- undertake an options appraisal of the potential facility options and operational models, to identify a preferred option
- undertake sensitivity analysis of the preferred option
- outline the procurement approach for design, construction and operation.

Further details of the parameters and working assumptions for the Outline Business Case are included in Appendix A.

The key output from this business case is to provide the Council with a recommendation of a preferred option for the delivery of an arena, to include:

- the appropriate scale, configuration and supporting facilities required
- the likely revenue position including the estimated revenue that could be generated through arena usage of car parking

- indicative capital costs
- an estimated public sector funding requirement.

From a delivery perspective, this business case will provide the Council with a recommendation for the most appropriate operational model and procurement strategy.

Structure of this report

This report is structured as follows:

- section 2 sets out the project vision and objectives
- section 3 provides background and context to the development of an arena in Bristol
- section 4 summarises the outcomes of the stakeholder consultation undertaken
- section 5 sets out the findings of the demand assessment, including analysis of the key determinants of demand
- section 6 summarises the findings from the operator soft market testing
- section 7 presents our emerging thoughts on the venue's configuration and scale
- section 8 presents the headline cost projections for the arena options
- section 9 identifies the various management options available to the Council, highlighting the advantages and disadvantages of each
- section 10 sets out the outcome of the business planning for the options identified
- section 11 presents an analysis of the arena options from a qualitative and a financial perspective and identifies a preferred option
- section 12 presents a sensitivity analysis of the preferred option and additional project funding
- section 13 reviews the procurement and delivery options available, the advantages and disadvantages of each
- section 14 highlights potential key project risks
- section 15 provides a summary of key findings and sets out the recommendations for the project.

2. Project vision and objectives

An initial vision for the delivery of an arena in Bristol was identified as part of the feasibility study, set out below.

The delivery of an arena for Bristol on the Temple Quarter site, acting as a major catalyst and economic driver for the new Enterprise Zone. The arena should be commercially driven, delivered quickly and on budget, and be sustainable at no on-going revenue cost to the Council and its partners.

Following the production of the feasibility study, the election of the first Mayor of Bristol and the decision to move forward with the arena project, the Council has built on the original vision statement and expanded upon it to identify the key project objectives identified below.

Project objectives

The key objectives for the project set out below are the factors that will determine whether the project is considered a success. These are expressed in relation to two aspects of the arena; the experience and the building.

The Bristol Arena Experience will:

- create a “return-again” experience for its customers
- provide a vibrant “Bristol Experience” for visitors, which makes our Arena different from others
- be at the forefront of Arena programming and content
- provide excellent transport links to match public expectations
- provide safe and secure parking within 15 minutes distance for when public transport is not an option, providing an option of rapid transit from park and ride sites where appropriate
- provide the Council and the public with opportunities to use the facility via a number of community events (subject to cost considerations).

The Bristol Arena building will:

- have a capacity of 12,000, with 11,000 seated (subject to the outcome of this business case)
- be flexible enough in design to be future-proofed for changes in the entertainment market and to meet Bristol’s expectations
- be flexible enough to accommodate a wide range of content, including music concerts, family entertainment shows, sports and other events (temporary ice events subject to outcome of this business case)
- be delivered to budget and to a quality set out in the Employers Requirements
- be special, of a good quality, with an outstanding level of environmental performance
- be able to offer a themed usage, for example Circus
- be accessible to all and comply with the Bristol Access Standard
- be designed in a way that complements the requirements of the Planning Authority, so that Planning Permission can be obtained
- have very little car parking on site, probably only disabled bays with some staff/VIP parking
- provide suitable acoustic controls for noise entering and leaving the building.
- provide HGV parking only in/ adjacent to the Service Yard.

In addition to the above, the Council are seeking to deliver an arena that will have an appropriate and enhancing interface with the rest of the Diesel Depot site; and have identified two specific objectives to ensure that this is achieved.

The arena will:

- have a public realm interface with the rest of the site, which encourages visitors and creates a “destination” experience for “Arena Island”
- assist in making the TQEZ and Railway Station more accessible.

The vision and objectives outlined above will inform the OBC; will be interpreted through the options developed; and tested in terms of cost, viability and deliverability to enable the Council to make decisions going forward.

3. Background and context

Introduction

Arenas have increasingly been seen as a 'must have' for British and European cities to present a modern image and attract sports and entertainment events. In the last five years, major new (or refurbished) indoor arenas have been developed in cities including London, Birmingham, Liverpool, Leeds and Glasgow. These developments mean that Bristol is often considered by the arena industry to be one of the few remaining UK cities that could sustain a large indoor arena.

There are a wide range of factors that drive the need for a city to develop an arena. These include:

- bidding for/ hosting a major sporting or cultural event
- filling a perceived gap in the cultural infrastructure of a city
- civic pride/ improving the city for its citizens
- economic benefit/ regeneration of an area.

For Bristol, it is primarily a mixture of the latter three factors. In some instances, an additional driver is the presence of a sports team that requires a home venue, known as an anchor tenant, however this is not the case for Bristol; and in fact is seldom the case in the UK.

Arena developments are rarely driven by the private sector. This is because, the key drivers set out above are largely public benefits, and are not necessarily commercial. The exception to this is when the arena is driven by a tenant team, and even then it is not always a fully commercial proposition.

It is largely accepted that an arena, and the events hosted within it can provide a positive economic impact for the city/ region that it serves. This includes direct and indirect job creation, positive supply chain and consumer spending effects and social benefits. An economic impact assessment of the Leeds Arena project in England prepared for the UK Government Treasury estimated that by 2030, the arena would have a Gross Value Added (GVA) to the city region of £376m.

Why now?

The economic downturn has meant that the Diesel Depot site has not been developed and so remains available for an arena scheme in a prime location, and while the arena industry has been impacted by the economic downturn, it remains relatively strong overall and there is an appetite from venue operators and event promoters for more quality arenas.

With the development of new arenas in Leeds, London (The O2), Liverpool and Glasgow since the development competition in 2003, Bristol is now one of the last few major UK cities without an arena. With the market approaching saturation, and the potential that Cardiff might seek to bring forward a major new venue, the Council is keen to understand how it can enter the market and increase its appeal and competitiveness, provided an arena is deliverable and financially sustainable.

The Council commissioned a feasibility study in May 2012 to test the market demand, deliverability and financial sustainability of an arena for Bristol. The key findings to emerge from this feasibility study were outlined in section one of this report. In summary; Bristol was seen as a good location, with a high audience catchment area; there remained a desire from key stakeholders and high levels of interest from the operator / promoter market to deliver a music and entertainment arena of c10,000 – 12,000 capacity in Bristol. Indicative capital costs, revenue positions and an analysis of the overall funding requirements highlight that a significant amount of public funding would be required to develop an arena.

Following the feasibility study findings, and the appointment of Bristol's first elected Mayor, George Ferguson; the arena project has gathered significant momentum over recent months. A desire and commitment, driven by the Mayor to deliver what has been a long-time desire for an arena in Bristol is evident; with a particular focus on creating a sustainable, vibrant, active, iconic city civic space that has a positive impact on the city.

The site

Previous efforts to deliver an arena in Bristol have considered a number of sites, for example a site at Ashton Vale, adjacent to the proposed new stadium for Bristol City Football Club. However, as was the case for the feasibility study, the Diesel Depot site is the sole site under consideration for the arena development in this OBC. This is the same site that was used for SWRDA's previous arena development competition. The Diesel Depot site is illustrated in Figure 3.1 over the page, the site area identified in blue.

Figure 3.1 Diesel Depot site for arena development

The site is owned by the Homes and Communities Agency (HCA) and is located on the edge of Bristol city centre, adjacent to Temple Meads railway station. The site benefits from excellent rail transport links, while its strong road links (subject to capacity) help to ensure that an arena in this location will be very accessible to both visitors and artists/ acts. This is a key success factor for an arena project. The site covers circa 9 acres in total.

The HCA were consulted as part of the feasibility study and subsequently in the development of this OBC. The HCA's proposed approach to the site and current activities can be summarised as follows:

- HCA has commissioned a high level site masterplan to guide future development of the site
- two options are being developed, as follows:
 - with an arena on-site at the south end (an arena requires circa half of the site for the building and supporting facilities/ infrastructure)
 - without an arena on-site
- the site is likely to accommodate a mixed use scheme (with or without arena), including approximately 70% employment uses and 30% residential uses. Lively ground floor uses (such as cafes and restaurants) will be encouraged
- the HCA plans to develop the functional master plan, service the site (some improvements are discussed further below), and then market it for sale
- the HCA will facilitate the Council developing plans for an arena on site as an option, up until it needs to market the site, at which point, the Council would need to make a decision regarding purchase of part of the site for an arena

- the price that the Council would pay for the site will be subject to further discussion and negotiations with the HCA.

Whilst not part of the brief for the OBC, the project team considers that the wider site offers a potential funding/development opportunity for the Council. Should the arena be developed on site, it should, as has been proven in other locations in the UK, improve the value and market interest in the wider site. The Council, as the potential arena funder/developer, should consider how it might tap into this overall or increased value to use as part of the project funding mix.

Initial consultation with the Mayor highlighted his view that the Diesel Depot site should be viewed holistically as the 'arena island' and suggested that the proposed design competition for the project includes the wider site, not simply the arena building.

Temple Quarter Enterprise Zone

The Diesel Depot site is situated within Bristol Temple Quarter – a major Enterprise Zone (EZ), covering circa 70 hectares (173 acres) of land surrounding Temple Meads Railway Station. The TQEZ was announced by Government in the March 2011 Budget, as one of a first wave of 11 zones within Local Enterprise Partnerships (LEP). It will deliver a wide variety of business space, including refurbishment and re-use of historic buildings, supporting innovation and learning, alongside production.

The TQEZ is the flagship project for the West of England LEP, and was officially declared open for business in April 2012, with the stated ambition:

'To provide a superbly connected entry to Bristol and a hub for creative, high technology and low carbon companies, creating a catalyst for economic development alongside the five Enterprise Areas that will benefit the whole of the West of England.'

Appropriate infrastructure is key to enable the jobs growth targeted; significant investment is planned for the in the TQEZ, including almost £21 million from the LEP's Revolving Infrastructure Fund and over £11 million from the Government's Urban Broadband fund. Key projects to be delivered are identified below:

- redevelopment of the Grade I listed, Bristol Temple Meads railway station. The station is currently one of the busiest and most congested stations in the country, seeing nine million passengers a year, predicted to increase by up to 44 per cent by 2020. Redevelopment is much needed and is fundamental to the future success of TQEZ. The masterplan is due to be completed by January 2014; potential improvements include transforming the front of the station into a public square, the creation of a new passenger transport hub and a new entrance to the Victorian station
- the revamp of the Temple Circus junction and the roads around the station approach; the aim being to encourage people leaving the station to head into the city centre or connect with other public transport, including buses and the planned Rapid Transit System or MetroBus
- pedestrian bridge access to the Diesel Depot (arena) site from Temple Meads station over Cattle Market Road (estimated on site in December 2013)

- a new access road and three- lane bridge, off Cattle Market Road at the back of the railway station, over the River Avon into the Enterprise Zone; which will link the Diesel Depot site to the rest of the city (estimated on site in December 2013)
- access around the Diesel Depot site itself via a spine road through the site, pathway around the edge of and pedestrian stairs from Bath Road to the site.

The LEP package will deliver 17 pieces of infrastructure in and around the Zone as illustrated in Appendix B.

The aim of the infrastructure works is to offer world class connectivity; with specific regard to the arena, the outcome will be that vehicles will be able to access the arena from 2 sides, there will be easy access from allocated car parking and excellent transfer for those attendees who will arrive by public transport.

Summary

There is significant ambition for a new arena in Bristol despite previous failed efforts;. The general arena market remains relatively strong and Bristol is often considered as one of the few remaining UK cities that could sustain a large indoor arena.

Of the typical drivers for a city, the key drivers for a new arena in Bristol are: filling a perceived gap in the cultural infrastructure of a city; civic pride/ improving the city for its citizens and; economic benefit/ regeneration of the area.

The only site under consideration for the arena development is the Diesel Depot site, located within Bristol Temple Quarter; it is approximately 9 acres and benefits from excellent transport and road links. Significant infrastructure is planned around the site that will further improve general connectivity of the site and specifically for the arena, will enable easy access for operational purposes and audience attendance.

The HCA own the site and will facilitate the Council developing plans for an arena on the site, up until it needs to market the site, at which point, the Council would need to make a decision regarding purchase of part of the site for an arena. Should the arena be developed on site, it should, as has been proven in other locations in the UK, improve the value and market interest in the wider site. The Council, as the potential arena funder/ developer, should consider how it might tap into this overall or increased value to use as part of the project funding mix.

4. Stakeholder consultation

A thorough consultation exercise was undertaken during the previous feasibility study; in order to ensure this business case reflects the most up-to-date position of key stakeholders, the agreed approach with the Council was to:

- re- issue all previous consultees with a record of the meeting notes from prior consultation, requesting: confirmation of whether their position regarding the provision of an arena in Bristol remain the same; an update on any changes for their organisation that may be relevant and; the opportunity to provide additional information or comments
- offer those consultees with updated or additional information the opportunity to meet with the project team; or if not possible, a telephone conversation
- consult any additional stakeholders identified since the feasibility study.

The purpose of the consultation exercise was to:

- test and confirm the potential demand and support/ opposition for an arena
- test the project aims and objectives with a wider audience
- identify any potential opportunities and or risks for the project
- inform the potential programme and facility mix for the arena
- discuss relevant specific issues with key stakeholders, e.g. transport, programming, operation etc.

Over the study period, 25 local and regional stakeholders and potential partners have been consulted, the key findings of which are set out in this section. In addition seven arena operators and promoters have been consulted and the outcomes are reported in section six. Table 4.1 below details all consultees.

Table 4.1 List of local stakeholders consulted

Consultee	Title/ department	Organisation	
Bristol City Council			
Mayor George Ferguson	Mayor	Bristol City Council	Consulted
Councillor Simon Cook	Cllr	Bristol City Council	Re-consulted
Nicola Yates	City Director (CEO)	Bristol City Council	Consulted
Jonathan Amphlett	Leisure Services Manager,	Bristol City Council	Consulted
Mike Allen	Finance Business Partner	Bristol City Council	Consulted
Peter Holt	Director of Communications & Marketing	Bristol City Council	Re-consulted
Claire Teasdale	Events Team	Bristol City Council	Consultation (tbc)
Alastair Cox	Service Manager City Transport	Bristol City Council	Re-consulted

Consultee	Title/ department	Organisation	
Local Stakeholders			
Paul Appleby	Chairman	Bristol Media	Re-consulted
John Hirst (replaced John Hallet previously consulted)	Managing Director	Destination Bristol	Consulted
Andrew Kelly	Director	Bristol Cultural Development Partnership	Re-consulted
Matt Booth	Chairman	Bristol Music Foundation	Re-confirmed
Louise Mitchell	Chief Executive Officer	Bristol Music Trust	Consulted
Chris Humphrey	Chairman of Creative Common	Circomedia	Consulted
Kirsten Durie	Property Development Surveyor	Network Rail	Re-consulted
Amanda Hoyland	Route Enhancement Manager Western Route	Network Rail	Consulted
Duncan Laird	Group Manager	City Transport	Consulted
Colin Skellet	Chairman	West of England LEP	Re-confirmed
Peter Holloway	Area Manager	Homes & Communities Agency	Re-consulted
John Benson	Partner	Alder King	Consulted as a group
David Pople	Director	Brighton International Arena	
Rob Guy	Partner	Arturus Architects	
James Durie	Director	Bristol Chamber of Commerce	Consulted at feasibility stage. Non-respondent
Paul Rowlands	Independent	Cycling	Consulted
Steve Symons		Westholts	Consulted

The majority of consultees were provided with some initial background information and key questions/ topics for consideration prior to the meeting/ teleconference. The questions/ topics provided were a mixture of generic items for all consultees and some specific items for specialist consultees (e.g. transport related questions for Alistair Cox).

Appendix C provides detailed consultation notes which have been signed off by the individual consultees. A summary of the key findings is included below, set out in two parts; part one is a summary of the key themes emerging from the consultation exercise and part two, is specific findings by organisation where relevant.

Key themes identified

The key findings from the consultation process can be grouped as follows:

- support and need for a new arena in Bristol
- key considerations for a new arena in Bristol
- arena specification and facilities

- arena usage/ programming
- arena management and funding
- lessons learned from previous attempts and potential risks
- other key findings.

The following paragraphs summarise the key findings under each heading.

Support and need for a new arena in Bristol

The consultation identified the following support for an arena in Bristol:

- overall strong support for delivering a new large arena in Bristol
- recognition that there are no other venues in City/region that cater for events that the arena would host
- recognition that an arena would help to raise the city profile and identify Bristol as a regional capital
- recognition that an arena would benefit the city economically through retail, transport, restaurants, hotel use etc.
- an arena was considered a very positive addition to the Temple Quarter Enterprise Zone, the 'front door to Bristol'
- recognition that the mayor is behind the project which makes it 'more real' and has provided added momentum to the proposals
- one consultee expressed hesitancy regarding whether there is a need for an arena as the evidence has never been presented
- some concerns were expressed that the Council is losing credibility due to the lengthy nature of the project.

Key considerations for a new arena in Bristol

The consultation identified a range of key considerations for a new arena in Bristol, summarised below:

- Bristol/ distinctive character:
 - a definitive feeling that a new arena should have a *Bristol distinction* but be practical and sustainable
 - the arena should be for 'Bristolians' (flavour, events and jobs)
 - the arena should fit within the ecology of the city; the Bristol music environment is already good, the arena should complement existing smaller venues, build on the existing well-established music scene through a holistic approach to the city offer
- TQEZ and Diesel Depot site:
 - the Diesel Depot site is a good accessible location and the arena could act as the catalyst for the wider Temple Meads area

- consideration should be given to the Bristol Temple Meads masterplan development and delivery, in particular the Station East Entrance
 - parking needs to be considered operationally and financially; ideally minimum car parking on site
- the public realm of the arena is important; this whole area should be considered an iconic civic space and be a vibrant and active area. Opportunities identified in relation to this include:
 - integrate the Circus (or another Bristol) theme
 - outdoor trapeze identified by Circomedia as a potential opportunity
 - relocation of Creative Common, currently located on a temporary use site elsewhere in the TQEZ
 - integrate popular Bristol leisure activities e.g. Climbing was identified as a popular leisure activity in Bristol, there could be a climbing wall (or other attraction) on the arena façade (trend in venues becoming visitor attractions, Durban, O2)
- the arena needs to be commercially and financially sustainable
- the arena must be attractive to operators.

Arena specification and facilities

Consultation findings in relation to the facility specification of a new arena in Bristol can be summarised as follows:

- venue design is considered key but also aware that a design competition will have to be managed carefully to control costs
- the venue design should be flexible, to enable the arena to be competitive in the long term and to accommodate various event types
- the venue should appeal to both audience and artists
- facilities included should complement those that already exist within the city. Some sensitivity was expressed regarding the arena being able to offer smaller capacity events and becoming competitive with Colston Hall
- there is currently no requirement for any new major sports facilities, or planned hosting of sporting events, in the city (nevertheless it was highlighted that an arena may help NGB's to meet objectives) therefore no driver for sports focussed arena
- some potential links if conferencing space is available in the arena (lacking larger facilities in the city), that would bring added benefits to the city
- use of the executive boxes outside of event days is suggested

- use of flexible space identified as desirable by many consultees (leisure, music, education, lifelong learning, businesses)
- potential facilities to support TQEZ were identified, including the provision of a health & fitness facility and meeting/ event space (this could be within or around the arena)
- some public use facilities external to the arena e.g. climbing, watersports highlighted as positive addition.

Arena usage/ programming

The key findings in relation to the usage/ programming of a new arena in Bristol can be summarised as follows:

- high levels of usage on non-event days is viewed as important
- community use of/ access to the venue is important
- potential to link with mass participation events in the City e.g. city half marathon, school games
- potential to link sports development with arena events e.g. dancing on ice
- potential to host spectacular shows/ sporting events that require specific alternative layouts e.g. 6 day track cycling event, never held in the UK before
- potential to link with the University and other educational providers to offer teaching/ workshop space
- potential to link Creative Common project to the arena site (currently located on a temporary use site), as an extension of the public realm space and enhance the civic space
- there should be differentiation between the arena offer and what is already provided in the city
- Destination Bristol undertook a consultation exercise with its members from the tourism and hospitality industry, including hotels, visitor and cultural attractions, community events, festivals and conference centres. Consultees were asked 'What type of events could & should we have in the arena in Bristol?'
 - almost 100% said a place for concerts, musical events, entertainment (particularly stand-up comedy) sports and conference or convention space. As well as big name bands; also to attract opera, ballet and outdoor theatre
 - circus was mentioned by about 15%, largely in reference to visiting companies such as Cirque de Soleil rather than local groups
 - mention of space being available for community groups, local schools events and local bands to use as a showcase, either as part of a festival or individual performances
 - two particular sports facilities were mentioned frequently where there is currently either no provision (ice rink) or no central provision (swimming pool)

- the use of the arena as exhibition and convention space was the third largest request (Note respondents profile)
- the space should be multi-functional and multi-purpose allowing for it to be as flexible as possible.

Arena management and funding

A range of views were expressed in relation to the management and funding of an arena. It should be noted that the majority of consultations took place when a key funding assumption was that a significant part of the capital funding required would be secured through an application to the Regional Growth Fund (RGF). However, towards the end of the consultation process, the Council was informed that it had not been successful in its application for RGF funding, which could impact upon stakeholder's views on management and funding. A selection of views are summarised below:

- the management solution should cater for the Council desire for the arena to be for Bristolians; it would be good psychology for the city to have a stake in the management of the arena and the Council would like to be able to have input. Some hesitation was expressed regarding the commercial operator and potential to lose the community focus of the arena
- Bristol already has lots of good things happening, the role of the operator should be to enhance what is already happening
- all management models should be considered
- the Council appetite for risk is considered higher than previously
- if the project is deliverable, it is considered that the Council will find the capital funding
- aim for as much as possible through City Deal
- no other capital funding sources identified
- car parking revenue will be critical
- any level of on-going revenue support required from the Council is likely to be difficult.

Lessons learned and potential risks

The key potential risks of a new arena in Bristol, identified during consultation, can be summarised as follows:

- capability of the Council to secure capital funding; RGF funding unsuccessful (notified towards the end of the consultation period)
- the redevelopment of Cardiff Arena to larger capacity and improved venue
- potential negative impact of the arena on existing cultural facilities, in particular Colston Halls

- public perception of council's ability to deliver
- public perception of the arena as being un-used/ underutilised
- managing the balance between aspiration and reality internally within the Council and externally to key stakeholders and local population
- annual operating risk.

A copy of all individual consultation notes can be found in Appendix C.

Other key findings

In addition to the summaries above, there were three other key areas of discussion throughout the consultation exercise; transport, Colston Halls and the potential for a theme (potentially circus) to the arena. The findings in relation to these areas are detailed below.

Transport

Details of the site are outlined in section 3 of this report. Consultation has highlighted that access to the site and transport solutions are both complex, and absolutely critical, to the successful delivery of the arena and the TQEZ as a whole. Specific feedback can be summarised as follows:

- the site is a very accessible location, well served by public transport
- rail enhancements (electrification to enable bi-modal trains to be running by 2018) will improve public transport access further, providing an additional two trains per hour to London Paddington (via Bristol Parkway) and a reduced travel time of 1hr20m
- Temple Meads station will undergo significant redevelopment focussing on; the connectivity of the site and ensuring the station is fit for purpose – including meeting the needs of the areas surrounding the site, which have changed significantly. Plans currently include an East entrance which will cater for the arena & Eastern EZ development; however there needs to be consideration as to who will fund this
- there are significant transport infrastructure works planned to ensure appropriate transport capacity to enable the TQEZ to function and encourage people to the area. Whilst the plans include consideration of the arena, these works will go ahead regardless of the arena happening or not, the main impact of the arena would be on the capacity/ specification of the works
- traffic congestion could be an issue; traffic levels and parking demand are expected to increase as the recession passes
- the arena should aim to align with the transport strategy, which is focused on encouraging maximised use of Park & Ride, rail, buses and walking and cycling
- there is limited proposed car parking in place near the arena - 250 spaces on Diesel Depot site to cater for staff, VIP & disabled and 3,500 spaces in 1.5km radius.

A car parking strategy is currently being developed for the wider TQEZ, taking into account the needs and requirements of the Temple Meads redevelopment and the arena. As part of the strategy, the approach to the provision of arena guest parking, and how to secure a proportion of that income for the Council to part fund the arena development is under consideration.

Colston Halls

The Colston Hall is a 2,000 capacity concert hall operated by the Bristol Music Trust (BMT) on behalf of the Council. The venue offers a broad cross-arts programme – it has played host to many well-known acts, including Pet Shop Boys, Erasure, Alison Moyet, The Beatles, The Rolling Stones, The Who, Pink Floyd, Queen, Iron Maiden, and more recently acts such as Anastacia and Robbie Williams. In addition, the Hall regularly hosts classical, comedy and occasional theatrical productions.

The venue does host a number of conferences (1800-2000 capacity), using the foyer area and local hotels to offer breakout areas. BMT are in the early phases of working strategically with Destination Bristol in order to attract more conferencing events.

Recent redevelopment of the foyer has provided a new and exciting space that includes new performance areas, box office, café bar, rehearsal rooms, education facilities and improved disabled access. The stylish glass-fronted foyer building is considered a new architectural landmark for the city facing onto The Centre. Designed by architects Levitt Bernstein Associates, it features a spacious atrium crossed at upper floor levels by a series of bridges, seamlessly linking the new foyer with the existing main auditorium and other part of the historic hall building.

Significant capital investment is still required in the auditorium, which is not considered fit for purpose. Discussions highlight there is a desire for a £45m redevelopment however funding is still to be secured; with £30m anticipated from the Regional Growth Fund, recent disappointment regarding their application will significantly impact the capacity for redevelopment. If funding can be secured, it is important to note that during the period of redevelopment, the existing venue will be unavailable for between 18 – 24 months which may offer an opportunity for replacement through the provision of a temporary venue on the arena site.

Arena theme?

For some, Bristol is renowned for circus as well as street art, festival and alternative activities. It is known that Bristol is the city outside of London with the most circus activity and there are a lot of good things already happening already.

Based on this association with circus and the Mayor raising the notion of circus involvement at the arena, consultees were asked for their feedback. Specific circus feedback can be summarised as follows:

- the City of Circus is a self-imposed brand encompassing; teaching, providing opportunity to learn, rehearse & perform, marketing and career development
- there is agreement that a home for circus in the city would be good but whether in the arena is the best place for this is not clear and needs to be explored in more detail from a strategic, operational and financial perspective

- careful consideration needs to be given as circus is quite niche and has specific technical requirements; also whether there would be any visibility for the end product (apart from Cirque du Soleil)?
- operator view will be key - how they view the potential and whether there is any contradiction of objectives (covered further in Section six).

The consultation process suggests that there is limited support for the arena to have a 'theme', be it circus or another theme. There is however, strong support for the principle that it should have a Bristol flavour/ focus, which could be seen as a theme.

In relation to the potential for a circus theme, the consultation identified a number of potential issues with combining the needs of the circus/ circus education community, which focuses around smaller performance spaces, rehearsal space and education into a large scale arena facility. The main issues are:

- difference in the scale of facilities (arena c.12,000 performance space, local circus users up to 300)
- availability and disruption of circus/ education usage - i.e. when the arena is in use for an event/ event set up, it would not be possible to grant access to the circus groups, and as the programme for an arena is irregular and the circus education programme requires regular usage.

There are however clear benefits to having the circus (or other) community uses on-site, all of which contribute to the arena's overall objectives, these include:

- increased non-event day footfall
- identity for the site
- wider benefits of creativity to the TQEZ.

In summary, whilst combining the circus requirements into the arena building does not appear to meet either party's needs, the potential for circus/ community use of either the wider site or a separate (but potentially connected) building would provide the additional benefits outlined above.

In addition to the consultation with the Bristol circus community, The Generating Company were consulted. They are a producing company that specialises in combining circus, dance and theatre. They were formed out of the Millennium Dome Central show, and now produce shows of all scales either resident or touring around the world. The Generating Company believe that there is gap in the UK for a national circus, yet to be created, that could be based around a new purpose built circus arena in Bristol. Details of their thinking are to be provided to the Council separately.

Summary of consultation findings

In total, 25 local and regional stakeholders, and potential partners, have been consulted. Stakeholders were consulted regarding their support and need for a new arena, thoughts on key considerations for a new arena, comments on arena specification and facilities, arena usage / programming, management and funding and, any lessons learned from previous attempts and potential project risks.

The key findings from the consultation process can be summarised as follows:

- strong support for the development of an arena in Bristol, suggesting it will help to raise the city profile and benefit the city economy. Evidence of the need for an arena should be made available to consultees and the wider public
- the arena should have a distinctly Bristol flavour, be loved by local people and provide employment for local people. This includes the public realm; it is seen as important, should be vibrant and active and integrate popular Bristol activities
- the Diesel Depot is a good site for an arena - there are significant transport infrastructure works planned and it is recognised that there is limited proposed car parking in place near the arena; it will be important that a suitable parking and transport strategy is developed and implemented for the site in line with the Council transport strategy
- venue design is considered important, the arena building should be flexible enough to accommodate a wide variety of events and be able to respond to any future trends
- the arena should maximise non-event day/ community usage - use of flexible space identified as desirable by many consultees (leisure, music, education, lifelong learning, businesses)
- the arena should fit into the cultural infrastructure of the city, complimenting other local facilities where possible. There should be differentiation between the arena offer and what is already provided in the city
- the programme of events should be wide ranging, including all of the typical events you would expect in an arena. Events at the arena should fit within the ecology of the city, building on, and linking to, what is already happening in the city
- there is limited support for the arena to have a particular theme
- needs of the local circus community are for smaller performance, rehearsal and education space for regular usage, which does not fit with the irregular use of a very large facility that is typical of an arena, however a separate space for the circus community could assist in delivering the wider project objectives (e.g. activate the area on non-event days etc.)
- the arena should be commercially and financially sustainable. Any level of on-going revenue support required from the Council is likely to be difficult; car parking revenue will be critical to deliverability
- all forms of management should be considered, it should be ensured the arena proposal is attractive to operators
- key risks to delivering the arena were identified as; the arena being underutilised, impact on existing facilities and securing the funding required.

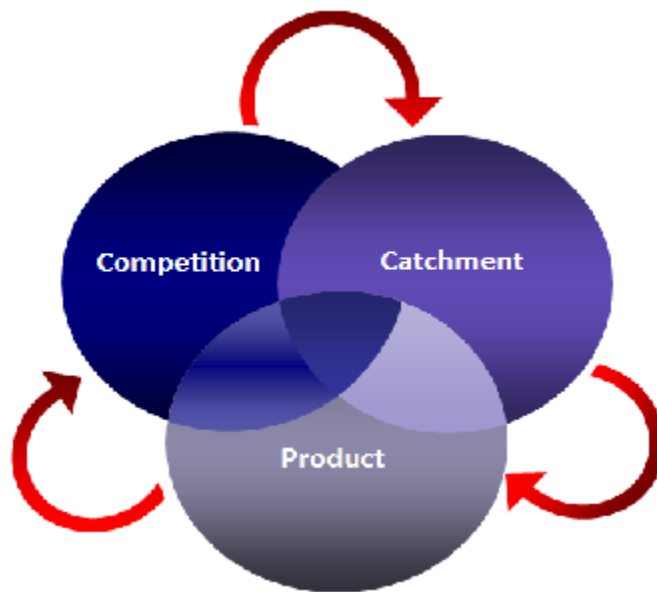
5. Demand assessment

Introduction

As noted previously, there is a wide range of factors that drive the need or desire for a city to develop an arena. These include bidding for/hosting a major sporting or cultural event, filling a gap in the cultural infrastructure of a city, civic pride, and economic benefit/ regeneration etc.

Regardless of the driving force behind the decision to develop an arena, it is important to consider the market demand for, or likely response to its development. The key interrelated factors that impact upon the demand for an arena are illustrated in the diagram and explained further below.

Figure 5.1 Determinants of demand



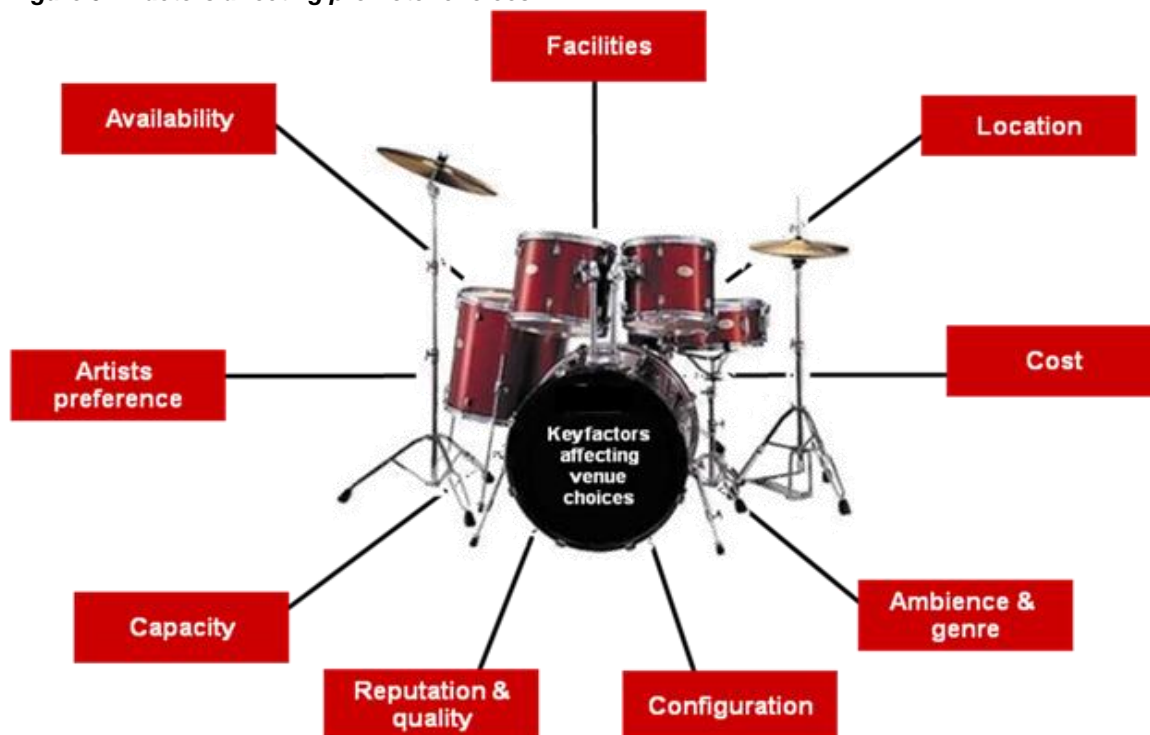
Demand for an arena in Bristol or elsewhere is determined through the interaction of three key considerations as illustrated above; namely:

- **Product:** an arena requires 'product', i.e. events to fill its annual calendar, this could include concerts, musicals, stand-up comedy, family shows, a sports anchor tenant, other sporting events etc. - as a general rule, the more product an arena can secure, the more commercially successful it will be (subject to the quality and commercial appeal of the events)
- **Catchment:** an arena requires a strong population catchment in order to maximise ticket sales and attendances at the arena. This is both in terms of the number of people that can access the arena within an acceptable travel time and also that there is a strong propensity for people to attend and pay for events/ tickets. The strength of the business community and corporate appetite for hospitality and sponsorship is also a key component of catchment analysis
- **Competition:** competition for an arena applies to both the catchment/audience and also to the product.
 - *Example product competition:* there are a finite number of major international recording artists touring in one year, playing a certain number of concerts in a geographical area (which could be

Western Europe or the UK for example). In addition to the 'must play' markets of London, Manchester and invariably Birmingham and Glasgow, an arena in Bristol would be competing with venues in cities such as Newcastle and Nottingham for any additional event days. However if the artist had decided to play in the West of the UK, then the competition would be more local, for example Cardiff's Motorpoint Arena. The complex factors affecting promoter choices on product placement are illustrated in the diagram below. In addition to these factors, relationships between operators and promoters, such as AEG and Live Nation acting in both capacities, also influences promoter choices

- *Example catchment competition:* an arena in Bristol would compete with other venues for audiences. In instances where an event is held in several cities, this might mean that Bristol competes with Cardiff to attract more visitors to its event. Catchment competition could include other arenas that people within the Bristol catchment could visit, other venues in the city and also other types of entertainment/events such as theatre, football matches etc.

Figure 5.2 Factors affecting promoter choices



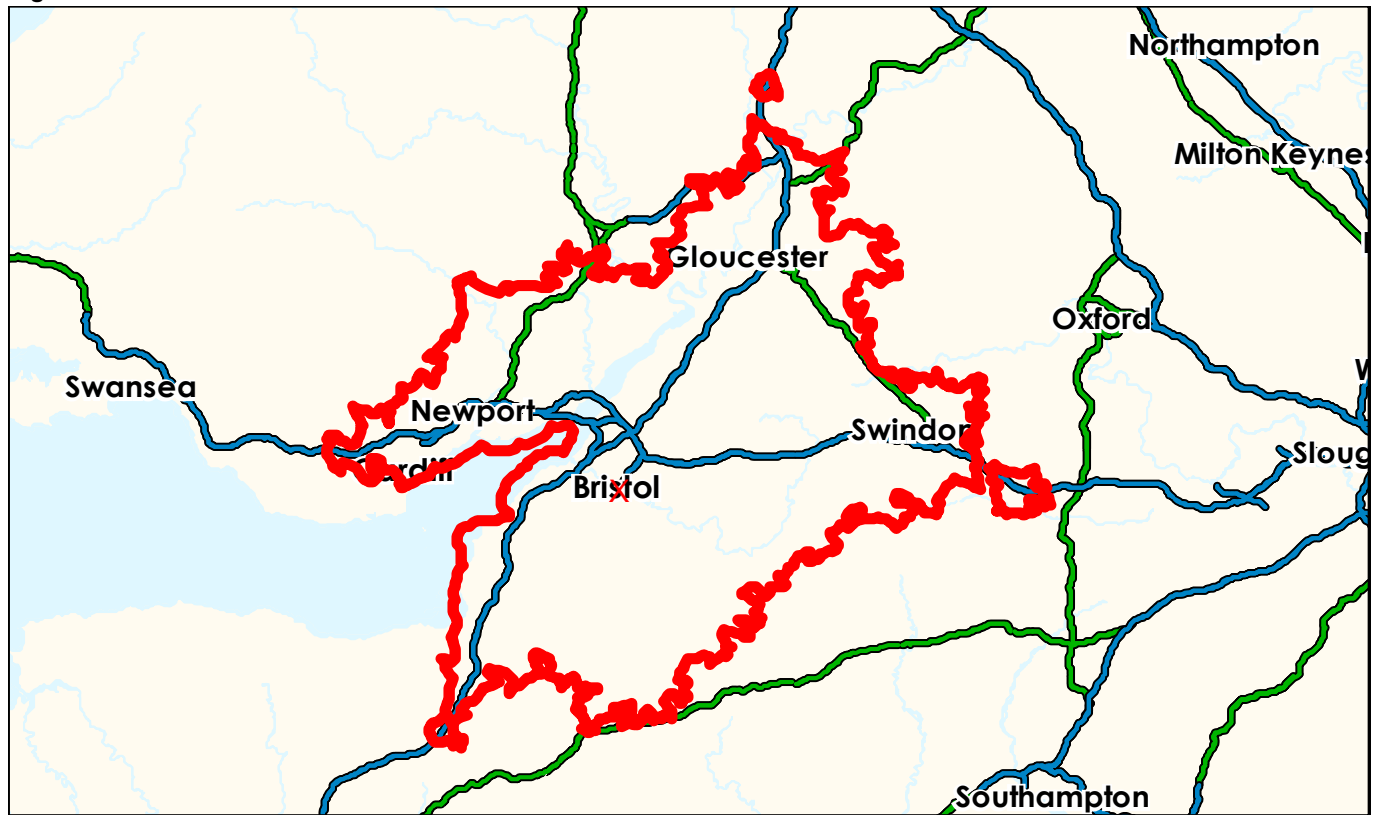
Catchment analysis

Arenas and large scale rock/pop venues typically draw from a drivetime catchment of 60 minutes, although some events may draw from beyond this. As previously noted, Bristol faces competition for event attendees geographically in the south west, and also potentially extending north and east towards Birmingham and London respectively.

Size of catchment

The feasibility study undertaken previously, included a 30 minute and 60 minute catchment analysis for the proposed arena. Figure 5.3 below illustrates the 60 minute catchment:

Figure 5.3 60 minute drive time catchment for Bristol arena



The findings identified that there are:

- 935,000 people within 30 minute drivetime
- 2.8m people within 60 minute drivetime.

When the 60 minute drivetime catchment is compared with other UK markets as in Table 5.1 over the page, it can be seen that Bristol has a comparable size of city and scale of catchment to Liverpool, and a larger catchment than Newcastle and importantly Cardiff. All of the cities in the table, with the exception of Bristol have an indoor arena.

Table 5.1 Catchment area comparison

City	City population (2010)	60-minute DT population (approx.)
Leeds	798,800	3,200,000
Nottingham	307,000	3,000,000
Bristol	441,000	2,800,000
Liverpool	445,000	2,620,000
Newcastle	292,000	1,760,000
Cardiff	330,000	1,000,000

Sources: ONS; IPW... research; ACE data

In addition to scale, the Bristol catchments can be analysed in relation to demographic profiles and the projected propensity of residents to visit cultural events such as concerts.

Propensity of catchment to attend events

The Arts Council England's (ACE) Taking Part Survey 2007 (the Survey) provides a tool to aid understanding of the UK arts and cultural events market. The Survey provides an insight into the population characteristics that determine demand for an event nationally, and when viewed in parallel with catchment demographics enables analysis at a regional level.

At a national level, key findings of the survey were:

- the percentage of respondents attending an arts event at least once in the last 12 months is consistent among 25-64-year-olds, beyond which the percentage begins to decline
- attendance among respondents aged 75 and over is currently significantly lower than all other age groups
- respondents in lower socio-economic groups are less likely to have attended arts events than those in higher socio-economic groups. Respondents in managerial occupations are more than twice as likely to have been to at least one arts event over a 12-month period than those who have never worked
- live music was the second most popular arts event (behind theatre/ play) attended, with 24% of respondents attending at least once in the last 12 months.

At a regional level, the Survey (via ACE audience analysis arm) provides reports that include an analysis of defined catchments around cities/central points. For each catchment analysed the report gives an overview of; the size and demographic characteristics of the population and, the number of adults with a propensity to attend live music performances, go to the theatre, or visit other cultural venues¹.

¹ these figures are estimated from Target Group Index (TGI), ACORN and Mosaic data

As already identified, events at an arena in Bristol will draw audience primarily from within a 60-minute drivetime catchment. To illustrate the potential size of the target audience and appetite for tickets in Bristol, the Survey analysis has been undertaken specifically for the Bristol catchment, and **the key population characteristics for this catchment** are:

- above national average propensity to attend most arts events, including Pop/Rock concerts, Plays, Opera and Classical Music, Jazz, and Theatrical performances;
- 21% hold higher education/vocational qualifications – which is a strong determinant of demand for arts and cultural events;
- it exhibits a slightly above national average ABC1 social composition, which again is positive as an indicator of demand; and
- there are significant numbers of people within the ‘Wealthy Executives’ and ‘Prosperous Professionals’ ACORN categories, which may create corporate and business club opportunities.

The **propensity of the Bristol catchment to attend events** identifies the potential scale of the audience for events in Bristol, based on the analysis of different population characteristics. This is summarised in Table 5.2 below.

Table 5.2 Propensity to attend arts events – Bristol's 60-minute drivetime catchment (15+)

Attendees (Target Group Index)	TOTAL	Data as % of area	Relationship to national index (+ or -)
Adults (15+)	2,537,730	100.0	100
Plays	844,967	33.3	104 (+4)
Opera	266,590	10.5	117 (+17)
Ballet	279,101	11.0	111 (+11)
Contemporary Dance	206,449	8.1	98 (-2)
Classical Music	438,957	17.3	107 (+7)
Jazz	308,296	12.1	117 (+17)
Any performance in a Theatre	1,261,203	49.7	107 (+7)
Pop/Rock concerts	1,080,974	42.6	103 (+3)

Source: ACE Arts Attender data

It can be seen from the table above that for all forms of art/cultural event analysed (with the exception of contemporary dance), the Bristol catchment exhibits an above national average propensity to attend events. Specifically, within the 60 minute drivetime catchment, over a million people are likely to attend a pop or rock concert.

In addition to the catchment information generated by the ACE analysis above, we would also note a number of key characteristics of Bristol and the surrounding areas, which is positive for the development of a sustainable arena business plan. These characteristics include:

- Bristol is a relatively high wage economy with a skilled labour force and strong business sector, which can impact upon ticket demand and secondary spend in the arena as well as corporate opportunities
- Bristol has the third-highest per-capita GDP of any English city, after London and Nottingham (Source: ONS)
- 59,000 people in Bristol are employed in the financial and business services sector (Source: Invest West)
- Bristol is a very popular visitor destination – the 4th most visited city in UK for business travel; the fourth most visited city for leisure visitors and the seventh most visited city in the UK by overseas tourists.

This catchment population analysis, combined with the fact that the Bristol catchment size is very competitive when compared to other UK markets that already sustain successful large arenas, suggests that demand for arena events is likely to be sufficient to justify a large capacity venue.

Competition analysis

For most leisure and cultural facilities, competition can be defined within a specific geographical area. However, this is not strictly the case for an arena. Whilst attendance will be impacted by geography (accessibility, catchment size) and the competing facilities within a defined radius, securing product and events is subject to regional, and indeed national, competition.

For example, securing one or more dates on a national concert tour is subject to a number of factors, including the number of performances available in the tour, scale of act/ production, promoter relationships, commercial terms offered, and artist input (e.g. if the band were from Bristol or elsewhere in the region).

There are a number of 'must do' locations/ venues in the UK, namely London, Manchester and potentially Birmingham and Glasgow. The remaining tour 'dates'/stops are typically then divided between other arenas. Therefore, Bristol would compete with Sheffield and Nottingham, for example, as well as Cardiff, which means that the event market and number of competing venues in the UK as a whole are important considerations.

Where Bristol sits in terms of its competition will be impacted by the capacity of the arena and how this relates to other UK venues. Table 5.3 below summarises existing large-scale arenas in the UK, the arena capacity and a category A*-D (assigned by IPW...) to provide an indication of where the arena sits in the national hierarchy for tour routing. The inter-relationship between these venues is then considered further later in this section.

Table 5.3 UK arena venues

Venue	Capacity	Cat	Venue	Capacity	Cat
5-8,000 capacity			12,000+ capacity		
Motorpoint Arena, Cardiff (<i>43 miles</i>)	7,500	B	Manchester Arena	21,000	A*
Westpoint Arena, Exeter (<i>78 miles</i>)	7,500	D	O2 Arena, London (<i>123 miles</i>)	20,000	A*
8-10,000 capacity			LG Arena, Birmingham (<i>95 miles</i>)	15,500	A
Aberdeen Press & Journal Arena	8,500	C	National Indoor Arena, Birmingham (<i>95 miles</i>)	14,000	A
10-12,000 capacity			O2 Arena, Dublin	14,000	A
Metro Radio Arena, Newcastle	11,000	B	Leeds Arena	13,500	B
Echo Arena, Liverpool	11,000	B	Sheffield Motorpoint Arena	13,000	B
Odyssey Arena, Belfast	11,000	B	Hydro Arena, Glasgow (<i>under construction</i>)	12,500	A
Capital FM Arena, Nottingham	10,000	B	Wembley Arena (<i>117 miles</i>)	12,000	B

Table 5.4 below, summarises the major potential competing venues within an hour's drive of Bristol.

Table 5.4 Potential local competitor venues

Venue	Venue type	Distance*	Capacity	Events
Motorpoint Arena, Cardiff	Arena	43 miles	7,500	Rock & Pop Concerts, Comedy, Family shows
Ashton Gate	Stadium	3 miles	25,000	Bristol City FC, Occasional summer concerts
Colston Hall	Concert hall	2 miles	2,100	Classical music, Entertainment, Rock & Pop Concerts
Hippodrome	Theatre	2 miles	1,950	Theatre/stage shows Comedy, Opera
O2 Academy	Music venue	2 miles	1,600*- 1,900**	Rock and pop music*/ club nights**

*Source www.theaa.com

We would expect a new arena in Bristol to complement existing venues in the city such as Colston Hall and the Hippodrome. It is recognised that local facilities have the potential to compete for audiences (and occasionally product) but only Cardiff is likely to compete strongly for product and audience, and Cardiff is therefore the key competitive consideration.

Detailed consultation has been undertaken with the Bristol Music Trust, responsible for safeguarding music in Bristol and operator of Colston Hall, as well as other key stakeholders in the city.

The findings have been outlined previously in section four of this report, however the key point is that the arena should complement existing venues and the existing Bristol music scene.

From a promoter and operator perspective, consultation has supported the view that Cardiff is the key competitive consideration, although suggesting that Bristol would be considered preferable for a number of

events. Anecdotally, we understand that event audiences from Wales would be more inclined to travel to Bristol for events than vice versa, which would give Bristol a distinct commercial advantage. In order to maximise its competitiveness, it is important the arena is of sufficient scale and flexibly designed to deliver a quality atmosphere and audience experience at different event capacities.

A new arena in Cardiff?

Our current understanding is that Cardiff City Council still wishes to develop an arena and conferencing facility in the City supported by the Welsh Parliament. The current estimated scale of that venue is in excess of 10,000 capacity arena with a budget for both facilities in excess of £100m. At varying stages the project has moved forward and then slowed down depending upon other fiscal pressures.

The support of the Welsh Parliament is likely to be a strong driver for ultimately delivering an arena and conferencing facility for Wales and most likely in Cardiff. Initially it will be important that a Bristol scheme has a greater capacity than Cardiff so as to maximise its subsequent likely attraction for promoters. As has previously been reported, should a scheme in Bristol be developed and a subsequent scheme is developed in Cardiff then that will impact on the overall performance of both venues (thereafter damaging the Bristol performance). The potential risk of this scenario should be considered when the Authority decides upon the appropriate management and risk models for the future development of the arena in Bristol.

There will be a significant benefit for the third party, i.e. Cardiff or Bristol, developing the arena first. However, developing first would not necessarily prevent or discourage a subsequent arena development in Cardiff.

Product analysis

The third determinant of demand is product. Product is effectively the collective term for events that could be attracted to a venue, including pop/rock concerts, family shows, indoor sports events and theatrical performances.

National trends

The National Arenas Association (NAA) produces an annual report containing the findings of an annual research programme carried out amongst NAA members. This report reviews the concerts and events held in the member venues (minimum indoor seated capacity of 5,000 required to be eligible) in order to assess trends in the market. This data provides a useful tool to analyse trends in available product, to then apply to the business plan in developing an assumed event programme.

The most recent report covers the period January to December 2012. The key findings of the report are:

- a total of 2,023 event performances were held, constituting an 4.8% decrease on 2011
- a total attendance of 10,971,093 was attracted to these events, constituting a 9.2% reduction on 2011 (it is worth noting that 2011 attendance was a 10% increase on 2010)
- overall average attendance was 5,423, a slight reduction on the 5,683 obtained in 2011, but higher than the 2010 average of 5,025
- the average ticket prices was £37.22 and increased of £4.39 on the average 2011 price of £32.83
- 47% of events were music concerts, 29% were family shows, 11% were sporting events and 10% were comedy shows (other events: 3%).

It can be seen from the above that there was a slight reduction in performances, overall attendances and average attendance in 2012 compared with 2011, this is despite the fact that 20 venues provided figures to the NAA compared with 19 in 2011. However, the average ticket price increased by £4.39. Figure's 5.4 and 5.5 below, illustrate the trends in arena events and attendances between 2007 and 2012.

Figure 5.4 Total number of arena events in UK arenas by year

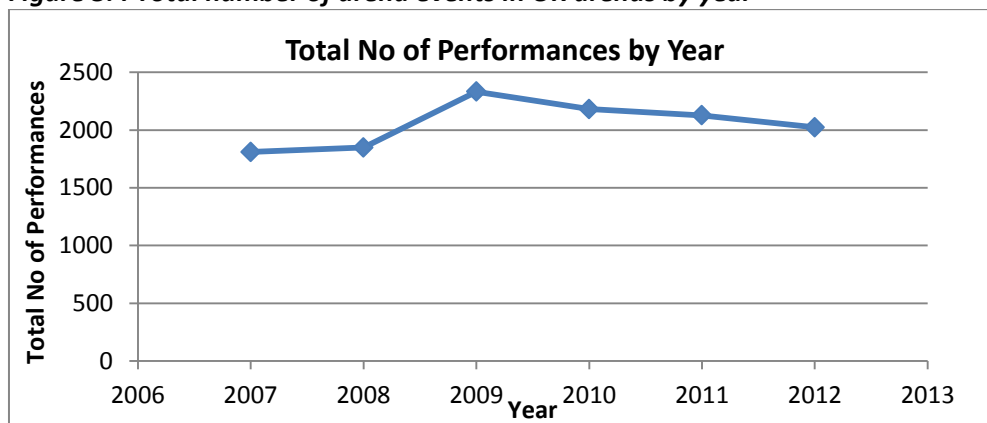
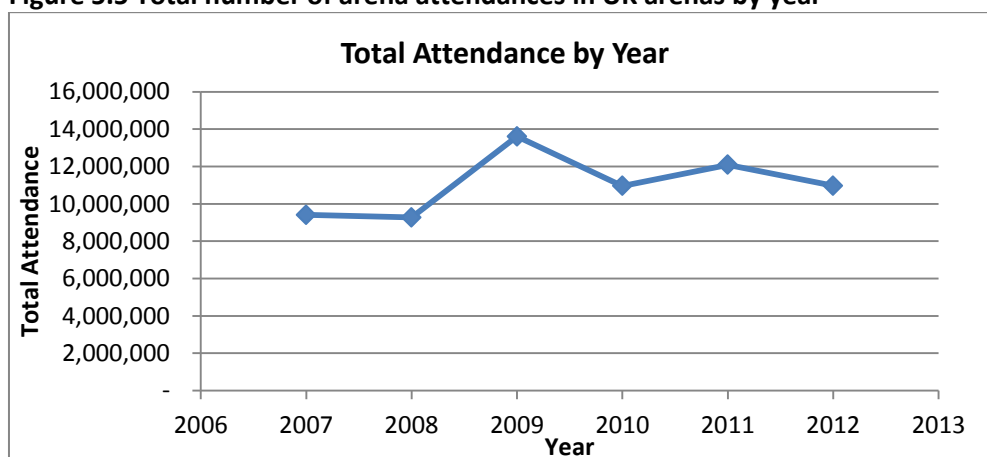


Figure 5.5 Total number of arena attendances in UK arenas by year



This analysis illustrates that, despite a fall in event numbers in each of the last two years, the overall event market has remained relatively strong over the last five years. While the economic downturn appears to have had an effect since 2009's record performance levels, event availability and event demand is nevertheless solid and venues can, in the right market, expect to have strong event programmes.

Product analysis for Bristol

Sport

Sporting events typically account for c.11% of all events at UK arenas. Over the last five years, NAA venues have hosted an average of only 10-15 sports events each (Source: NAA research). 2012 saw a second consecutive reduction in sports performances (down by 7% on 2011) and a third consecutive reduction in sports attendance (down by 15% on 2011). Our analysis suggests that, at present, it is likely that sports will be a very secondary use of an arena in Bristol, as there is limited demand for/availability of sporting events. The potential sports usage of an indoor arena falls into two categories, which are:

- an anchor tenant playing domestic league and potentially international cup competitions
- sports events (major /minor championships, tournaments, exhibition events, sports entertainment).

These two opportunities are explained below in turn, and are considered for their relevance to Bristol.

At a 'typical' North American arena, an anchor tenant sports team would provide c.20-40 event days. However, although there are some exceptions (Belfast Arena – Giants ice hockey; Motorpoint Arena – Sheffield Steelers ice hockey matches), UK arenas now seldom have anchor sporting tenants, as they are not commercially sustainable. Incorporating the needs of an anchor sporting tenant can potentially both increase capital costs and compromise programming and other event opportunities.

Ultimately prospective sports tenant teams in the UK do not generate sufficient revenues from commercial sponsorship, or match day attendances, to be able to pay commercial venue hire rates. Consultation has not identified a potential tenant team in Bristol. There may be scope to incorporate an anchor tenant team in future should one emerge, but at this stage it is unlikely to contribute to the profit of the arena, and would most likely run at a loss for the operator.

The Council nor other consultees have not expressed a particular appetite to bid for and host major sporting events, in fact there is currently no specific events strategy. The competition to secure these events is intense and the relevant International Sports Federations (ISFs) typically set very challenging (and expensive) facilities requirements to enable a city to host. In light of the significant competition in this area, and the investment made by very active sporting cities such as London, Sheffield and Glasgow in the UK alone will make it very difficult for Bristol to attract these major events. The bidding process requires significant investment in lobbying and working to attract events, which would be an additional liability on the Council as, while an operator would work in partnership with the public sector, they cannot be expected to contribute financially to funding attracting sports events.

Given these factors, we would not expect sports to constitute more than 5% of the event programme at Bristol Arena.

Music concerts

Music concerts form the majority of most European arenas' event programme, and are expected to do the same in Bristol. Music events account for 47% of all event performances and 58% of the total attendance (6.3m people attending 946 performances) at NAA venues in 2012; this is a reduction in the number of music performances and attendance by 3.3% and 3.8% respectively.

Apart from a significant increase in events in 2009 (before the impact of the economic downturn had its effect on touring plans), the number of concerts hosted by UK arenas has been relatively consistent at around 50-55 per year, showing how they continue to be the major element of UK arena programming.

Bristol's strong indigenous music scene (the city was rated "best music city in UK" by NME) would suggest that there is significant demand for major live music shows, and we would expect concerts to form the key backbone of the event programme.

Feedback from promoters and operators suggests that an indoor arena in Bristol will be an attractive and popular concert market, which would draw business away from Cardiff and draw audiences from across the South West

region. The absence of a larger venue than Colston Hall and the O2 Academy, currently significantly limits the events that can be attracted.

While major changes in the music industry have fundamentally increased the number of touring acts, the concert market is relatively finite and whilst some tours might add an additional date to accommodate Bristol, others will make choices between venues/ cities that currently receive concerts. In order to be competitive, it is essential that a new arena in Bristol delivers a quality of experience for events at a range of capacities.

Family shows

Family shows are those entertainment events aimed at families, ranging from Disney on Ice and Walking with Dinosaurs to Strictly Come Dancing and Cirque du Soleil. Family shows tour around Europe but in a different pattern to concerts. Family shows could play a week or more residency in a single city dependent upon ticket sales and should sales make it worthwhile, could add a city onto the end of a tour relatively easily. This means that competition with other cities/ venues for the product is not as strong for family shows as it is for concerts.

Family events accounted for 29% of all event performances and 18% of total attendance at UK arenas in 2012 (Source: NAA Report). This equates to 1,96m people attending 582 performances (a 6% increase in events when compared with 2011).

Whilst the competition for product is less intense, venues in close proximity compete for audiences, and ticket sales will ultimately impact the promoter's decision to use a venue. Feedback from consultation suggests that a new venue in Bristol would attract a range of touring family shows and would probably broadly reflect the national average.

Stand-up comedy

Stand-up comedy has increasingly become a popular and key component of arena event programmes. In 2012 comedy events accounted for 10% of all event performances and 12% of total attendance at NAA venues (1.3m people attending 201 performances). After a steady five year growth and a spike in 2011; 2012 witnessed significant reduction in both performances and attendances when compared with 2011; 29% and 35% reduction respectively.

Colston Hall and Bristol Hippodrome have hosted slightly smaller national comedy tours such as Mickey Flanagan and Reginald D. Hunter in recent years, and Ashton Gate has also hosted large comedy events. As a major city with a high student population we would expect Bristol to attract and stage successful comedy shows.

While the average comedy show attendance at NAA venues was circa 6,800 last year, it is important that any venue can be scaled for smaller events to retain the intimacy that is key to a successful comedy event.

Promoter consultation

The operator consultation process (detailed in section six) has given us a strong summary of likely promoter opinion and appetite, as each of the operators works closely with the key promoters. A number of local/regional promoters and music organisations have also been approached, including:

- John Empson (Promoter, The Eden Sessions)
- Conal Dodds (Promoter, Metropolis Music)

- Matt Booth (Bristol Music Foundation)
- Steve Symons (Stage Programmer & Event Production Manager).

The key findings can be summarised as follows:

- market need
 - there is definitely a market for an arena in Bristol, and there would be significant demand
 - Bristol is a cultural hotbed and there is no indoor venue sitting between Ashton Gate and Colston Hall capacities; having an indoor alternative for the Amphitheatre would be beneficial
 - currently events have to go to Cardiff, though this is a relatively challenging market
 - there are not any quality larger venues in the South West (options are Cardiff, Bournemouth International Centre or Plymouth Pavilions)
- venue scale
 - events can make money at 10-12,000 attendance, and it is pointless going any bigger and trying to compete with The O2 for example
 - flexibility of design, and particularly scale, is key to the venue's success
 - the arena should be workable at smaller capacities, using draping etc. to get to a good venue at 5-6,000 capacity
- event programme
 - expect arena in Bristol to be more popular than Cardiff
 - potential for Bristol to take events away from Cardiff
 - expect a relatively standard event profile, though with a particular emphasis on music.

Demand summary

This section has provided an overview of the main trends in the UK arenas market, and introduced the key determinants of demand.

The arena event industry, despite being challenged by the economic downturn, has proven relatively robust over the last five years. Though cyclical due to the nature of touring patterns, UK arenas have consistently attracted circa 100 events per year, largely driven by music shows. The nature of the industry is such that events will play at venues where they expect to make the greatest financial return, and Bristol will therefore be competing with other venues of similar capacity across the UK. However, Bristol's large catchment area, and the demographic profile of this catchment mean that it has a strong chance to attract events and audiences.

Consultation has strongly supported the view that there is a need for an arena in Bristol to complement existing cultural venues in the city.

The arena market, and indeed demand for product, has grown substantially over the last 15 years in the UK, despite a levelling off in more recent years as a result of the economic downturn. The market for large-scale arenas in the UK is also considered to be approaching saturation, particularly given that Leeds Arena has recently opened and Glasgow open later this year.

This does not prevent new entrants into the market, however it does highlight the increasing risk (or potential cost) of doing so. We consider Bristol to be one of the few remaining key major markets where there is sufficient demand and commercial rationale for the delivery of a successful and financially sustainable arena.

6. Operator soft market testing

Introduction

It is important to understand the views of both arena operators and event promoters when considering the demand for a new venue. Throughout this study, five major UK arena operators, and three additional special interest groups for Bristol, have been consulted, the key findings of which are set out in this section.

Major UK arena operators - consultation

Arenas are operated by both the public and private sector. We have consulted with each of the major operators in completing this study.

As well as confirming the key findings of the feasibility study in relation to catchment, competition and product; the following key topics were discussed with each operator:

- the Bristol market and operator interest
- scale, configuration and design
- community usage and themes. Special interest groups – consultation

In addition to the major UK arena operators consulted, three other organisations who are considered to have a potential interest in operating the new arena were consulted.

Summary of operator consultation

The operator consultation undertaken provides confidence that there is a market for an arena in Bristol. It supports the stakeholder consultation in identifying that there is no particular market for sport, and the market demand assessment in that Bristol would be capable of securing a similar event programme to other UK regional venues. The consultation confirmed a number of findings from the feasibility in relation to catchment, competition and product, as outlined overleaf:

Catchment

- strong catchment because of the geography, significant catchment beyond Bristol (new arena audiences)
- strong enough to sustain a venue – “last frontier for a large venue in UK”
- Birmingham currently pulls audiences from Wiltshire, Avon and Gloucester (good market)
- Bristol has remained strong, one of later cities to feel the change in consumer behaviour because of the recession
- important that Bristol develops before Cardiff upscales.

Competition

- all operators agreed that there would be some competition with Cardiff and to a lesser extent Birmingham
- most thought that there was room for a venue in Bristol, with minimal impact on competitors
- one commented that Bristol-Cardiff would work like Nottingham/ Sheffield or Leeds/ Manchester
- unlikely that an arena would compete with local venues for product, due to scale.

Product

- Bristol is a B market for concerts (i.e. not London or Manchester) and will therefore compete for the regional tours – but could compete well
- comedy and some family shows show strength
- programme likely to be music and entertainment focussed
- minimal demand for sporting events in Bristol
- operators highlighted opportunity to pick up minor conference business.

In addition, a summary of the findings in relation to community use and potential themes for an arena is provided below:

Community use

- operators understand the desire of the Council for non-event day / community usage
- potential programming clash with large events/ commercial use
- significant cost of community use (because a large venue for such uses); if Authority days were to be included in the contract, these would be at a cost to the Council
- some operators consider it as critical to the life of a venue, others consider it a programming challenge

- better to have facilities that can be separated off for community use/ everyday use – not the main arena bowl/ building
- types of use depend on local community needs
- A3 uses were identified most as a way of achieving regular community use e.g. external facing ground floor restaurants.

Themes

- some operators identified the potential to use architecture to express a theme – e.g. Nashville Arena
- no operators came up with examples of successful programme or other types of theming
- mixed reception to the circus theme
- it will depend upon what it actually means and whether it interferes with overall programming
- one operator quite positive about potential.

Interest

The level of interest from the operators in a new arena in Bristol, and the nature of their interest, is summarised in Table 6.4 below.

Table 6.4 Operator interest

Operator	Lease	Management Agreement	SPV (specific services)
Operator 1	✓	✓	Not strong
Operator 2	✓	✓	Unlikely
Operator 3	✓	✓	✓
Operator 4	✓	✓	✓
Operator 5	Subject to term/ structure	✓	Possible
Operator 6	✓	✓	Possible
Operator 7	✓	✓	✓

The optimum scale and configuration of venue is discussed further in Section 7, however the recommended arena capacity ranges from a minimum of 10,000 to a maximum of 13,000; with the recommended seated capacity between 11,000 and 12,000. In terms of configuration, there is no support for a 360 arena; two of the consultees suggested horseshoe as the most appropriate configuration.

Additional key findings include:

- there is no appetite for the provision of a conference or convention centre within the arena
- flexibility of the venue is key

- the events potential for Bristol ranges from 80 - 130; two of the three who provided figures suggested less than 100 events per annum as a maximum.

7. Configuration and scale

Introduction

This section summarises the key findings in relation to the potential scale and configuration of the arena.

Scale

The key determinants of arena capacity and the findings in relation to the Bristol market can be summarised as follows:

- of those operators expressing a view, two of the major operators stated the arena should be a minimum of 10,000 and a maximum of 12,000 capacity, one recommended 10,000 and another 13,000 maximum capacity
- two regionally-based promoters consulted suggested a capacity of 10-12,000, but cautioned against going significantly larger than this; also recognising that absolutely critical was flexibility in the venue to increase opportunity to attract acts/ shows
- the maximum capacity should be high enough to attract larger events, while not incurring additional unnecessary capital costs
- the capacity should exceed that at Cardiff's Motorpoint Arena and any known planned developments
- ability to scale a venue down from its largest capacity, to between 3,000 - 5,000 will be important to attract a higher number of events; however the lower end of this range may cause concern with regards potential impact on existing facilities in the city.

Based on the market analysis and consultation, our assessment is that the proposed arena should be a flexible, scalable venue, designed primarily around the need for concerts and entertainment events. The optimum capacity should be circa 12,000 people for an end stage concert configuration.

Configuration

Indoor arenas come in a variety of configurations. The most common format internationally is the full bowl or 360 degree arena which originated in North America, where major league tenant sports franchises in ice hockey and/or basketball have specific requirements. This configuration was adapted into the horseshoe format which delivers a more cost-effective solution for arenas where sport and entertainment are balanced in the event programme.

Recent developments have seen the emergence of a 'Super theatre' format. These are a very large tiered theatre, which are becoming popular for entertainment focused arenas and variations of these have recently been developed in markets such as Dublin (opened 2008), Leeds (opened July 2013) and Glasgow (expected to open September 2013). Finally, multi-purpose arenas, where the seats are largely retractable/ removable, are also becoming more prevalent due to the flexibility they provide to widen the types of uses an arena building can accommodate.

The optimum configuration for Bristol Arena should be based on an analysis of a series of factors including:

- capacity (discussed above)
- projected event programme/ arena suitability to hold the events
- relative capital cost
- audience experience for event programme
- flexibility and future-proofing requirements.

These configurations are discussed in more detail on the following pages.

Full bowl or 360 degree

This format of arena is the most common arrangement and works best for large court sports events such as ice hockey, basketball or handball, and it also works extremely well for centre stage entertainment shows and concerts. The big downside of this type of arena is that for end stage events around 25% of the fixed seating is behind or next to the stage and either cannot be used or has very restricted views and poor audibility. In addition the people sat at the opposite end to the stage are a substantial distance from the performers which gives a poor viewing experience.

Drapes can be hung from the roof of 360 arenas to scale the venue for smaller events and this can be done successfully with modern draping systems. 360 arenas tend to be larger capacity venues and they become uneconomic below a centre stage capacity of around 12,000 due to the spatial arrangement of the building losing efficiency.

Examples of recent 360 arenas include O2 London, O2 Berlin, O2 Hamburg and the MEN Arena Manchester. It should be noted that the O2 arenas have incomplete upper tiers at one end to partially address the number of unusable seats in end stage mode.

Figure 7.1 Example 360 configuration arenas



Horseshoe

Horseshoe arenas are similar to a 360 degree sports configuration with one end removed, which is replaced by a solid wall. This has the advantage of creating an end stage event set up using almost all fixed seats and the loading bay can be directly behind the stage, which means that show sets and equipment can be offloaded directly behind the stage position. In a 360 set up, loading bay access would typically be from one of the corners of the arena, which makes set up and take down more awkward. The horseshoe configuration also works well for

sports events, as whilst one side small end of the arena has no spectators the event distribution of spectators around the other three sides compensates for this. When you have sports events that do not require the whole event floor (such as tennis) temporary seating can be erected on the fourth side to add capacity.

As highlighted for the 360 configuration, the limiting factor of the horseshoe is that for end stage events a proportion of the fixed seating is behind or next to the stage and either cannot be used or has very restricted views and poor audibility, while visitors seated at the opposite end to the stage are a substantial distance from the performers which likewise gives a poor viewing experience. This setup does however scale well through the use of drapes and the potential to push the stage forward or backward to increase/decrease capacity based on ticket sales.

Horseshoe arenas work well for mid-capacity venues ranging from around 8,000 to 15,000 spectators. Above 15,000 the amount of fixed seating pushes the height of the building upwards and efficiency begins to fall.

Since the majority of arenas are sports 360 or horseshoe style configurations, most touring shows are developed specifically for this set up in terms of audience interaction, staging and lighting etc. This enables events to move from one venue to another with greater familiarity with how event staging is to be erected. A horseshoe configuration, despite its apparent limitations, may be considered the safest and most future-proofed configuration.

Examples of horseshoe arenas include Liverpool Echo, Newcastle Metro and LG Arena Birmingham, as illustrated below.

Figure 7.2 Example horseshoe configuration arenas



Super theatre configuration

The super theatre configuration is a relatively new development in the industry. A form of super theatre has been developed at The O2 Dublin, First Direct Arena Leeds and the Hydro Arena Glasgow (due to open September 2013). This type of large venue has only recently been developed for capacities in excess of 10,000 spectators, but is based on the principles of theatre design where the audience is oriented towards, and clustered around, a central stage area. This has the advantage of bringing the tiered seat spectators much closer to the stage and keeping them facing the stage, whereas with horseshoe configurations around 40% of the audience have to turn their heads to see an end stage event. It also reduces the volume of space in the auditorium, which improves acoustics by reducing reverberation times.

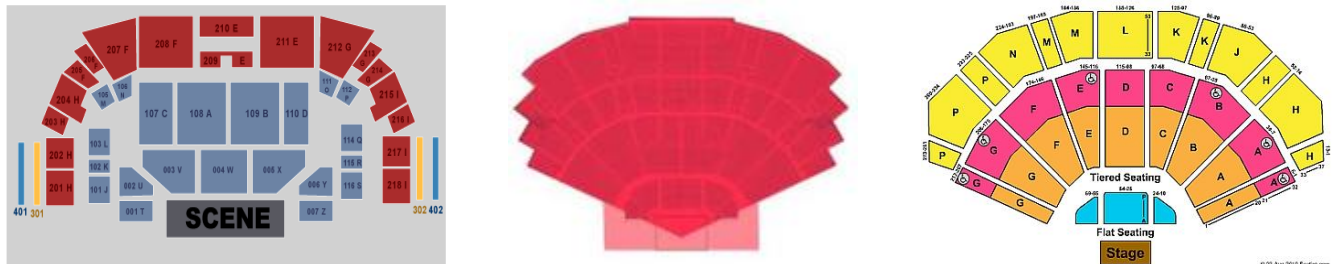
The size of the event floor in this configuration is usually smaller than a 360 or horseshoe which brings limitations in terms of which events, particularly sporting events, can be hosted. It is possible to create a super theatre with

a larger event floor but the tiered seating loses some of its efficiency. The other disadvantage is that centre stage events and sporting events are compromised as the audience is primarily on one side of the field of play.

Super theatres are very scalable venues, with drapes being able to close off the upper seats or the side seats, creating a very intimate performance space. The super theatre can work from very small capacities right up to about 15,000 seats, beyond which they become uneconomic as the height of the building becomes excessive.

Examples of super theatre variations are Oslo Spektrum, The O2 Dublin and Leeds Arena.

Figure 7.3 Example Super Theatre configuration arenas



Event suitability

Table 7.1 below illustrates the suitability of each configuration for a variety of event types.

Table 7.1 Arena configuration - event suitability

Event type	360	Super Theatre	Horseshoe
Sport			
Anchor tenants			
Major events			
Other			
Concerts			
Pop / rock music large			
Pop / rock music medium			
Other			
Entertainment			
Family shows	*		*
Musicals / theatre			
Comedy	*		*
Other			
Dance shows	*		*
Civic / religious events			
Corporate events			
Major conference / congress	*		*
Medium conference / congress			
Other events			

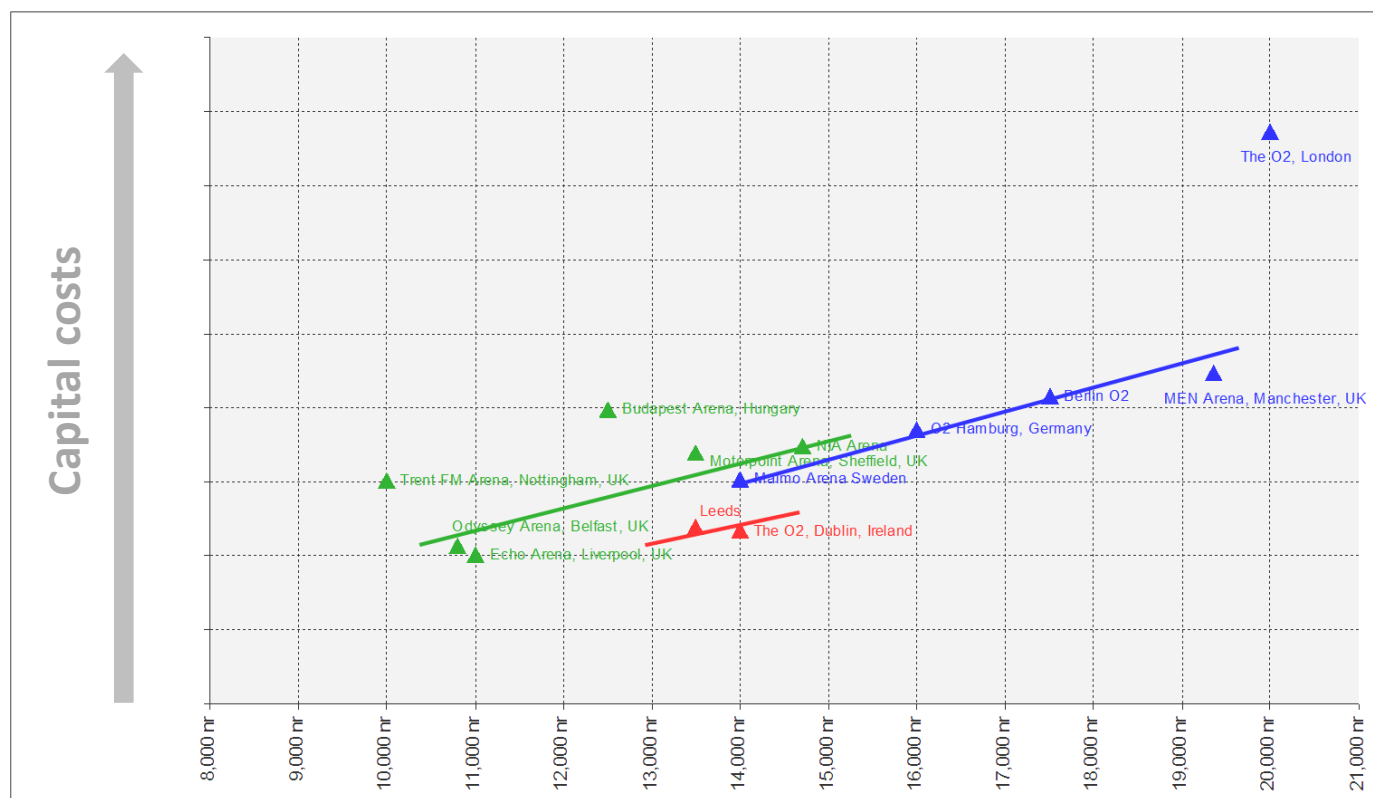
	No compromise
	Some compromise on viewing experience or ability to host (where * is shown compromise is to full capacity events only)
	Significant compromise to viewing experience or ability to host

It can be seen from the table above that all venue configurations are capable of hosting concerts, entertainment and 'other' types of performances, with the super theatre providing the best overall audience experience for these types of events. This is due to the proximity to the stage for smaller and larger events and the primary orientation of the seating bowl. However, it can be seen that a typical super theatre is limited with regards to hosting sports events (note - the Glasgow Hydro arena has an adapted form of super theatre layout because it will be used to host gymnastics in the Commonwealth Games 2014). Both the horseshoe and 360 degree arena are capable of hosting all types of events, albeit for major concerts and for some other events if using the whole arena, there can be some compromise relating to the audience experience.

Capital cost

There is a clear trend between number of spectators and arena configuration and the total construction cost of an arena. This is shown diagrammatically overleaf, with 360 arenas shown in blue, horseshoe arenas shown in green and super theatre arenas shown in red. This chart also shows the trend in terms of configuration and total spectator numbers, with horseshoe arenas being popular for 10-15,000 spectators, super theatres suiting 12-14,000 spectators and 360 arenas ranging from 14-20,000 spectators. These groupings are not by accident, certain configurations suit certain capacities. At 12,000 capacity where Bristol arena will sit, the horse and super theatre would be suitable from an efficiency and capital cost perspective.

Figure 7.4 Capital cost comparators



Configuration options analysis

Table 7.2 over the page provides a summary of the key parameters considered in determining the appropriate arena configuration for this project.

Table 7.2 Arena configuration assessment

Criteria	360 degree arena	Super theatre	Horseshoe
Projected event programme/ arena suitability to hold it	<ul style="list-style-type: none"> suitable for a wide range of events, as projected for the events programme 	<ul style="list-style-type: none"> suitable for the majority of events projected for the events programme – however very limited for sports 	<ul style="list-style-type: none"> suitable for a wide range of events, as projected for the events programme
Relative capital cost/ building efficiency	<ul style="list-style-type: none"> building is less efficient at 12k capacity, becomes more efficient at 14k capacity 	<ul style="list-style-type: none"> building is efficient at 12k capacity 	<ul style="list-style-type: none"> building is efficient at 12k capacity
Audience experience for event programme	<ul style="list-style-type: none"> good audience experience for most event types 	<ul style="list-style-type: none"> maximum audience experience for concerts and entertainment events lesser experience for sports as challenging to create a caldron type environment 	<ul style="list-style-type: none"> good audience experience for most events
Flexibility and future proofing	<ul style="list-style-type: none"> good flexibility and future proofing 	<ul style="list-style-type: none"> limited flexibility for sport/ similar events lesser potential for future proofing 	<ul style="list-style-type: none"> maximum flexibility and future proofing
Operator views	<ul style="list-style-type: none"> acceptable to most operators, but not specifically favoured 	<ul style="list-style-type: none"> acceptable to most operators and favoured by one 	<ul style="list-style-type: none"> most favoured option

Summary – configuration and scale

Taking into account all of the factors outlined above, the market research and operator consultation, the most appropriate configuration for an arena in Bristol is a horseshoe. As set out earlier in this section, the optimum capacity for the arena from a market perspective is 12k capacity.

In addition to the basic capacity and configuration parameters, the consultation has highlighted the aspiration for maximising community use and non-event day usage of the arena. Operator feedback suggests that it is not cost effective to use the arena (in terms of staffing, security and utilities) for smaller community type uses (e.g. coach education, community meetings etc.), when compared with the other types of venue where these activities take place (e.g. sports centre, community hall). Therefore, a second arena option has been identified for further analysis. The second option comprises the same arena bowl capacity, layout and supporting facilities as the primary option but an additional 1,000sqm of space has been allowed for. The additional space could be provided at the front of the building and be easily separable/ divisible so that it could be hired cost effectively by the community. It is also envisaged that it includes a café which is open every day to service community use.

Based on our research, consultation and analysis to date, we have identified a set of working assumptions regarding the headline facility mix for the arena, detailed over the page. These assumptions have been used to set out the baseline parameters for the business planning and capital cost estimates. We would recommend testing these assumptions further as the project moves forward.

Table 7.3 Headline facility mix

Element	Option 1	Option 2 +1,000sqm (differences only)
Arena bowl		
Main bowl	Configuration: horseshoe Capacities: 12,000 seated and standing for end stage concert 10,000 capacity all seated end stage concert 10,000 sports mode Ice pad: no permanent ice pad, but capable of accommodating temporary full size ice pad	
Seating	Seating arrangement to maximise audience experience Minimum seat width and specification to be determined (or a decision to leave this to the operator made)	
Corporate boxes/ premium seating <i>This could be an option for operators to amend if the Council goes to the market for an operator as it is a variable factor between operators.</i>	Boxes: 20 x 12 person boxes, reflecting operator feedback and as per feasibility study Premium seating/ hospitality: Total lounge space for 400 hospitality guests. 2 levels of hospitality, premium and gold	We are assuming that part of the additional space on major event days is used for a further level of hospitality package (silver) to accommodate a further 250 hospitality guests
Front of house		
Food and Beverage (general admission)	The arena will have sufficient concessions for the general admission patrons Assume that restaurants and food outlets will be available on the wider site	Café is included within the additional 1,000sqm
Hospitality provision	As set out under corporate boxes/ premium seating above	
Retail/ commercial	To include provision to maximise potential for merchandising	
Box office/ information points	Some form of information point/ reception/ help desk provision will be required	
Toilets	Sufficient provision to meet the industry standards for the licensed capacity – and positioned to avoid queue conflicts with catering outlets. Ensure swing toilet potential	
Back of house		
Kitchens/ F&B	Sufficient kitchens to support the F&B provision to	

Element	Option 1	Option 2 +1,000sqm (differences only)
	be identified	
Storage	Sufficient storage to support the operation of the arena and its event programme	
Service yard and loading areas	Must be accessible and sufficiently weight bearing for a minimum of 3 forty four ton Heavy Goods Vehicles (HGV's), with sufficient room for turning/ unloading Access yard will be in use at all hours of the day, and therefore likely to require fencing although it is not assumed to be covered	
Stage	A fully adjustable, demountable stage that can be stored elsewhere in the building. Most likely 30x25m	
Crew, artist, team and production facilities	Facilities must be capable of accommodating the arena event programme The solution will need to include flexible/ adaptable spaces that can accommodate the regular requirements for concerts/ entertainment events.	
Operational/ technical	All standard arena requirements to be included, for example: security room, first aid room, workshop, office space etc.	
Other operational or technical considerations		
Car parking	Sufficient car parking provision to support the venue must be available in close proximity. GA parking provision to be determined through the TQEZ parking strategy. 250 spaces to be provided on site for VIP, staff and disability parking A park for HGV's and coaches should also be made available in a convenient location.	
Fixtures, Fittings and Equipment	To be tested with the operators should the Council outsource or to be determined with the SPV and professional team if appropriate. A budget of c5% to be allowed at this stage	
Acoustics	Good quality acoustics for event programme, that also meet any planning or licensing requirements	
Loading	Floor loading must be capable of accommodating concerts and major sporting events Grid must support international touring concerts,	
Heating, thermal comfort and ventilation	TBD	
Utilities	TBD	
Technical infrastructure	TBD	
Environmental performance/ sustainability	An outstanding level of environmental performance	
Disability	To meet legal requirements	

Element	Option 1	Option 2 +1,000sqm (differences only)
access and provision		
1,000sqm additional space		Flexible space to be provided at the front of the venue Used on event days for pre-post event promotions and activities, and/ or additional hospitality space Used on non-event days for community hire (teaching, meetings, physical activity etc.)

The capital cost and operational performance of these two options are considered further in the following sections, along with a range of management options.

8. Capital costs

Capital costs

Arena outturn costs

AECOM has estimated the capital cost for Option 1, a 12,000 capacity arena in a horseshoe configuration based on the following assumptions:

- build cost (Q3 2013) assuming:
 - the cost of the arena includes an open service yard (approx. 2,000m²) and external concourse public realm
 - the arena capacity and GIFA as described in the table below plus 20 corporate boxes for 12 people and 400 person lounge space
 - approximate 20m height clearance, with high quality cladding to feature facade, but not an iconic building design
 - no permanent ice pad, but the ability to fit temporary ice pad into venue
 - normal acoustic attenuation requirements
- arena on-costs:
 - 5% allowance for Fixtures, Fittings and Equipment (FF&E)
 - 15% allowance for professional fees, including standard design and professional team fees, plus operator procurement and legal fees
 - 10% development contingency
 - inflation at 9.71% (indices current at July 2013) from price base date of August 2013 to programmed start on site of November 2015.

Table 8.1 below presents the estimated outturn costs of **£80.25m**.

Table 8.1 Arena outturn costs – Option 1

	Configuration	Horseshoe
	GIFA	24,400m²
Total seated and standing capacity for end stage event		12,000
End stage all seated capacity		10,000
Arena base build cost (August 2013)		£55,072,000
Fees at 15%		£8,261,000
FF&E at 5%		£3,167,000
Development Contingency at 10%		£6,650,000
Inflation from August 2013 to November 2015		£7,100,000
Arena outturn cost (November 2015)		£80,250,000

Project outturn costs

In addition to the above, we have been asked to identify and include costs for on-site and offsite works to determine the project outturn cost. The on-site works have been defined and estimated by AECOM, and the off-site works are a notional allowance of £5m specified by the Council. A breakdown of the on-site and off-site costs, assumptions and exclusions are provided as Appendix D totalling £8,110,000. In headline the following items are accounted for:

- car parking for 250 cars and coach parking for 6 coaches
- extending utilities from the new access bridge to the arena building
- allowances for improving drop off/pick up and pedestrian access, on-site drainage works, remedial works to river wall and Bath Road retaining wall
- general allowance for remodelling the remaining land parcels
- allowance for off-site works as advised by Bristol City Council
- allowance for artwork.

We have also been asked to include for the Council's project development costs, currently estimated at £1.8m.

The total project outturn costs are provided in the table below, based upon the arena outturn costs, plus the on-site and off-site allowances.

Table 8.2 Project outturn costs – Option 1

Configuration	Horseshoe
GIFA	24,400m²
Total seated and standing capacity for end stage event	12,000
End stage all seated capacity	10,000
Arena outturn cost (November 2015)	£80,250,000
Land value	£0
On and off site works	£8,110,000
Council project development costs	£1,800,000
Project outturn cost	£90,160,000

It can be seen from the table above, that the total project outturn costs allowing for construction, fees, development contingency, inflation and on-site and off-site costs and Council project development costs are estimated as **£90.16m**.

Option 2

As set out in Section 7, the difference between Option 1 and Option 2 is the inclusion of an additional 1,000sqm of space for community and hospitality use in Option 2. The additional outturn cost of the 1,000sqm is £3.289m. This is presented in Table 8.3 overleaf.

Table 8.3 Project outturn costs – Option 2

Configuration	Horseshoe
GIFA	24,400m²
Total seated and standing capacity for end stage event	12,000
End stage all seated capacity	10,000
Arena outturn cost (November 2015)	£80,250,000
Option 2 additional outturn (November 2015)	£3,289,000
Land value	£0
On and off site works	£8,110,000
Council project development costs	£1,800,000
Project outturn cost	£93,449,000

The project outturn cost for Option 2 is estimated as **£93.5m**.

For a full list of exclusions please refer to the detailed elemental build up included in Appendix E.

The above indicative costs are based on benchmark information of successfully delivered arenas both in the UK and across Europe. However, no design has been undertaken at this stage and therefore the elemental summary provided should form the basis of a target Cost Plan for the Design Team to follow.

9. Management options

Based upon discussions with the Council's Project Team, the key management options to be considered in relation to the proposed Bristol Arena are:

- operator lease
- management contract
- arm's length company/ Special Purpose Vehicle (SPV).

The option for in-house management was discussed and discounted with the Project Team, on the basis that:

- none of the other major arenas in the UK are operated in-house by a local authority
- there is no identified driver/ appetite from the Council to undertake in-house management
- it is not seen to bring any advantages over the options already identified for consideration.

An overview of the three options under consideration, and their headline advantages and disadvantages, is introduced below. A full assessment of the management options, including the likely financial implications and risk to the Council is provided in Section 11 (Options Appraisal).

Later in this section, more detailed information and case studies are provided in relation to the SPV option, as it is an option the Council has expressed significant interest in since the beginning of the OBC process.

It is assumed in all scenarios that the Council owns the building.

Operator lease – overview

An arena lease is an occupational solution, whereby the Landlord grants use or occupation of the arena for a specified period of time in return for rent, which can either be fixed, variable or a combination of both. As with other commercial properties, the lease could be structured as Full Repairing and Insuring (FRI) or Internal Repairing and Insuring (IRI), dependent upon the property and the Council's requirements.

Under a lease arrangement the tenant (likely to be a major arena operator) would be responsible for all costs associated with the venue and retains the income and operating profits (though overage agreements can be put in place to protect against super profits). This form of deal is typically only an option in major markets, where there are significant commercial opportunities so that the operator is taking a commercial risk decision.

The soft market testing undertaken with major arena operators identified a high level of particularly in a lease structure. This should provide the Council with comfort that should it chose to market an arena lease, it would secure an operating partner and the level of interest expressed should produce a healthy competition. It also illustrates that the industry has confidence in the arena market in Bristol.

Arena leases typically have a term of 20 -30 years to enable lessors to secure a return on their investment. These deals can be index-linked and backed by the necessary covenants to ensure their stability and security.

Under a lease scenario, it is assumed that all rights rest with the operator, including naming rights and other commercial rights.

As an Agreement to Lease can be secured prior to the start of construction the Landlord is able to understand the actual value of the contract, and can borrow against this guaranteed income stream to fund a significant proportion of the construction cost (this was c.30% of the Leeds Arena funding mix).

Table 9.1 below sets out the main advantages and disadvantages of a lease arrangement.

Table 9.1 Advantages and disadvantages of a lease

Advantages	Disadvantages
<ul style="list-style-type: none"> the city would benefit from the experience, expertise, contacts and processes of an established venue operator, which is an important feature in bringing a full programme of events to Bristol 	<ul style="list-style-type: none"> typically may reduce the quantum of market interest in the project as not all operators are comfortable with, or able to guarantee, a lease – however, all of the major operators expressed an interest on a leasehold basis
<ul style="list-style-type: none"> removes operating risk from the Council 	<ul style="list-style-type: none"> reduces or removes Council control over the building's operation and programming - <i>specific requirements can be included in the lease agreement, however it should be noted that restrictions/ requirements will affect the commercial offer/ rent</i>
<ul style="list-style-type: none"> maximises incentives for the operator to manage the venue effectively (i.e. commercially) 	<ul style="list-style-type: none"> reduces Council flexibility as it is a long-term agreement (typically 20+ years)
<ul style="list-style-type: none"> guaranteed rental streams can be used to support debt or repay investment in the capital build, with full confidence of receiving them 	<ul style="list-style-type: none"> operator retains venue profits - <i>though the Council can guard against 'super profits' under the terms of the lease agreement to recoup overage</i>
<ul style="list-style-type: none"> maximises opportunities to secure operator investment in the venue (e.g. FF&E) 	
<ul style="list-style-type: none"> long-term solution requiring little Council resourcing on an on-going basis 	

Management Contract – overview

Management contracts are a common form of operating agreement for venues worldwide. Under this scenario, an external operator would manage the arena on behalf of the Council, under a management contract. Under a management agreement the operational risk principally sits with the Council. There are a wide range of potential structures for a management contract; two examples are set out below, with many options in-between.

Example 1

- an annual (set) Management fee is paid to an operator covering professional and management services
- the operator manages the arena on behalf of the Council
- the Council receives the net profit or loss of the arena each year
- a profit share above a threshold should be offered to the operator to incentivise good performance
- the Council can input into the arena programming / operation through whatever mechanism is agreed with the operator in the contract

- this example provides minimal risk transfer from the Council to the operator.

Example 2

- no management fee is paid by the Council
- the operator is remunerated through a profit share mechanism (e.g. the first X% profit is paid to the operator, the next X% to the Council and then a split beyond that point)
- the operator could limit the Council's liability for losses in this model, however it does not guarantee income to the Council
- the level of client input into the programming/ operation can be negotiated at the contract stage, however if significant input is desirable it might affect the appetite of the operators for this type of contract.

Management contracts would typically be signed for a minimum of 5 year term, with longer terms required if the operator is expected to make any capital investments in the project.

All operators participating in the soft market testing exercise expressed interest in a management agreement. This is unsurprising, as the level of operator risk can be minimised in this model.

Table 9.2 below sets out the main advantages and disadvantages of a management agreement.

Table 9.2 Advantages and disadvantages of a Management Agreement

Advantages	Disadvantages
<ul style="list-style-type: none"> • the city benefits from the experience, expertise, contacts and processes of an established venue operator, which is an important feature in bringing a full programme of events to Bristol 	<ul style="list-style-type: none"> • the Council is exposed to the operating risk of the venue, low profits would impact its ability to repay borrowing/ investment and any losses may ultimately impact other Council departments/budgets
<ul style="list-style-type: none"> • maximises market interest from the established operators as they need not (necessarily) assume any risk on the arena's performance 	<ul style="list-style-type: none"> • operator potentially has less incentive or flexibility to optimise the building's financial performance than it would under a lease
<ul style="list-style-type: none"> • offers flexibility for the Council to pursue an alternative strategy in the medium term, should it so choose, since contracts are typically relatively short 	<ul style="list-style-type: none"> • more challenging to secure operator investment (e.g. FF&E) in the project given a typically short contract period, therefore increasing the upfront cost of the project
<ul style="list-style-type: none"> • enables the Council to set its own goals and targets for the operation of the arena, including programming, customer service, opening hours etc. 	<ul style="list-style-type: none"> • requires Council resourcing to manage the contract and to negotiate renewals on contract expiry
<ul style="list-style-type: none"> • the Council would receive the benefit of any operating profits 	<ul style="list-style-type: none"> • the Council is responsible for the capital repairs and maintenance, and any refurbishment costs for the building

Arm's Length Operation/ Special Purpose Vehicle - overview

An SPV or new arm's length company could be formed by the Council and its partners to operate the arena (and potentially other venues in the city). This has been undertaken in a number of UK cities, namely Nottingham,

Birmingham, Liverpool and Glasgow. Since the introduction of the Localism Act in 2012 there is even greater freedom for Councils and this could have a positive impact on such ventures.

There are a number of reasons that cities might consider the development of an SPV, including the following scenarios:

- when outsourcing (lease or management agreement) does not offer value for money/ sufficient commercial benefit
- when there is insufficient interest in the project from external operators, or an operator procurement has failed
- where the city has specific outcome requirements that are less commercial in nature, and might be hard to achieve through a lease or management contract if the city has the relevant operating experience/personnel to operate in-house or is currently operating other venues in the area.

In most cases the decision to form an SPV is driven by a lack of market interest. However it can be successful and positive in the long-term, as proven by the NEC Group (Birmingham).

Where an SPV is formed, its chances of success are maximised by sub-contracting specialist elements of the operation and recruiting experienced industry professionals to key posts (for example ACC Liverpool Ltd. recruited its CEO and CFO from NEC Group, as a significant amount of business is generated by personal contacts/ relationships). If the SPV is formed as a Trust or non-profit distributing vehicle, then it can receive tax benefits such as VAT and rate relief, however not all of the operation is likely to fit under such an arrangement.

To supplement the general information relating to SPV's and as the soft market testing exercise is not applicable to the SPV structure, we have undertaken additional research and consultation with key SPV operated venues in the UK. The venues considered were Liverpool, Birmingham and Nottingham. We have consulted with Phil Pickett at Liverpool and Phil Mead and Clare Greenwood in Birmingham. We have repeatedly tried to contact the Deputy Chief Executive at Nottingham, but have been unable to complete a consultation, therefore the information provided in relation to Nottingham is research based only. Summary case studies for each are provided over the page.

Liverpool



The Echo Arena and BT Convention Centre open in Liverpool in 2008. The Echo arena has a capacity of 11,000 people and the BT Convention Centre includes a 1,350 seat auditorium and 7,125sqm of exhibition space. The £164m project was grant funded by Liverpool City Council, English Partnerships, the North West Regional Development Agency and European (ERDF) – there was no debt to be repaid through the operation of the venue.

Both venues are operated by ACC Liverpool Ltd (ACCL), a management company set up by Liverpool City Council to manage the venues on its behalf.

Structure

Liverpool City Council owns the Arena and Convention Centre. It is also the sole shareholder in ACCL. The ACCL Board of Directors includes both City Council representatives and independent non-executive Director. ACC Liverpool recruited Bob Pratney as Chief Executive (previously of NEC Birmingham) in 2005 to build the team, market and operate the new centre.

All staff are employed directly by ACCL (currently c 120 employees). ACCL has full responsibility for the maintenance of the facility, which ACCL consider important for an SPV/ operator contract. In practice, the City Council has little/no involvement in the operation of the venues, it has set up ACCL to operate independently. ACCL reports to the City Council quarterly. There are no 'authority days' or obligations to hold community events, albeit the community receive a discounted rate for hires.

Financial performance

According to ACCL's annual accounts, the overall financial position in the past 4 years is as follows. It can be seen that whilst the venues are returning a surplus, it is a relatively small surplus.

	2009	2010	2011	2012
Turnover	£12.2m	£13m	£14.4m	£12.8m
Cost of Sales	-£3.9m	-£3.4m	-£3.8m	-£3.1m
Gross Profit	£8.3m	£9.6m	£10.6m	£9.7m
Operating position	-266k	£55k	£174k	£102k

ACCL does not currently pay any funds back to the City Council, a position which is under review.

ACCL would be willing to provide consultancy services and Director level support to Bristol City Council, should it decide to set up an SPV. It would also consider operating the Bristol Arena on a management agreement, if the terms were suitable.

Nottingham



The Capital FM Arena in Nottingham opening in 2000 as part of the National Ice Centre, the UK's first twin ice pad facility and centre of excellence for ice sport in the UK. The arena has a capacity of 10,000 spectators and the project cost £43m (2000 prices). The arena was refurbished in 2011, including increasing the capacity from 9,000 to 10,000 and installing a draping system to reduce the capacity for shows of 4,000 and below.

Structure

The National Ice Centre including the arena is operated by Nottingham Ice Centre Limited (NIC), a company wholly owned by Nottingham City Council. The building is owned by Nottingham City Council. The NIC Board of Directors includes both public sector and private sector representatives.

All staff are employed directly by NIC (currently c 70 full time employees).

Financial performance

According to NIC's annual accounts, the overall financial position in the past 3 years is as follows. It can be seen that even with a grant from the City Council, the venue makes a small operating loss.

	2011	2012	2013
Turnover	£6.8m	£6.6m	£7.8m
Gross Profit	£4.9m	£4.8m	£5.7m
Operating position	-£183k	-£128k	-£239k
Nottm CC funding	£161k	£100k	£224k
Operating position post Council contrib.	-£21k	-£27k	-£15k

The National Exhibition Centre Limited



The NEC Group operate four venues within or on the outskirts of Birmingham; the National Exhibition Centre (NEC) from where the name originates, the LG Arena (based on the NEC site), the International Convention Centre (ICC) and the National Indoor Arena (NIA). In 2012, there were over 4 million visitors at over 750 events across the venues.

The NEC is a world class venue on a 610 acre site with 182,000 square metres of covered exhibition space through 20 interconnecting halls. The venue attracts more than 2 million visitors each year, hosting 140 trade and consumer events, ranging from world-famous public shows such as Crufts and Clothes Show Live, to huge international trade exhibitions like IFSEC and Spring Fair. The venue is linked directly with both Birmingham Airport and Birmingham International rail station and sits at the centre of the UK's motorway system. The Group has welcomed a partnership with Genting Casinos for the construction of a £150 million integrated leisure & entertainment complex on the NEC site, 'Resorts World Birmingham', which will see a seven-storey leisure and entertainment complex built, making the site a 24-hour destination. The development is due for completion in Spring 2015 and will see a casino, four-star hotel, designer outlet containing 45 retail units, 11-screen cinema and a multi-use banqueting and conferencing facility (to be run by the ICC) and the UK's first 'large casino'.

The LG Arena is one of the UK's top arena destinations with a capacity of 15,700 which has recently benefited from a £29 million redevelopment with new seating, hospitality, bars and restaurants.

The ICC is a premier award-winning business destination hosting more than 400 events a year. The venue offers 10 meeting rooms and 10 conference halls with the capacity to host from 10 to several thousand.

The NIA is a globally renowned sport, concert and entertainments venue with a maximum seated capacity of 12,700 (14,150 standing) which has attracted the biggest names in sport and music since it opened in 1991. The venue offers various other formats including the Academy theatre style layout (capacity 3,500 to 5,100) or the Eclipse standing only format (capacity 2750 to 7500). A £26 million refurbishment is underway that will see improved experiences for artists, promoters, visitors, sponsors and residents; and a new glass façade that is set to connect it with the rest of the city. There will be modern and improved pre- and post-show bars, restaurants and entertainment areas; in addition to the introduction of retail units.

In addition to its venue operation brands; the NEC Group also operates a national ticketing agency, The Ticket Factory; supporting both NEC Group arenas and third party events and venues. The Ticket Factory sold 2.35 million tickets supporting over 1,700 unique events in the year to March 2011. Other brands developed include the Group's hospitality brand, amplify; and award-winning caterer, Amadeus. Two businesses have been launched that aim to take its expertise further afield; NEC Group International (which operates the Convention Centre in Dublin) and MemoryHaus. Using its expertise in marketing, the Group has launched Eight Feet Tall, a specialist agency for the live events industry.

Structure: The NEC Limited is a Private Limited Company. 99.99 per cent of the issued equity is owned by Birmingham City Council with Birmingham Chamber of Commerce owning the balance.

The NEC has been in operation for over 35 years. The NEC, the ICC, the LG Arena, the NIA, Amadeus and The NEC Group are all trading names of the NEC.

Across all venues it is estimated that the NEC Group employ almost a thousand people on a permanent basis and a further 700+ casual workers. The estimated annual impact to the regional economy is circa £2 billion.

Financial Performance: According to the 2011-12 annual report, the NEC Group made an operating profit of £29.4m, an increase 22% (£5.3m) on the previous year. Financial performance for specific areas of the business is outlined below:

- exhibition business, based at the NEC made profit of £37.6m, 27% increase (£8m)
- Arenas & Ticket Factory operating profit of £5.2m, increase of 37% (1.4m)
- Group Convention Centres (ICC & management contract for The Convention Centre, Dublin), reported a 25% (£900,000) increase in operating profit to £4.5m

In 2012, a five-year deal with Barclaycard was announced that delivers enriched entertainment and payment experiences. Barclaycard is the Official Payment Partner for The Ticket Factory, which means that customers of the Barclaycard Unwind programme get access to a series of ticket offers. This partnership also involves Barclaycard directly with the venues. As well as the introduction of payment acceptance innovations, such as contactless, it will also shortly become the title sponsor of the NIA.

It can be seen from the case studies set out above and the research undertaken to date that:

- SPVs set up in the UK to operate arenas also operate other facilities (e.g. Birmingham 4 venues, Liverpool arena and conference centre and Nottingham an ice centre) – *common feedback is that setting up an SPV for a single venue is unlikely to be cost effective for the Council*
- the financial performance of Nottingham and Liverpool is not strong, with Nottingham making an operating loss (including grant funding from the Council) and Liverpool making a small surplus
- the financial performance of the SPV impacts upon the Council's financial position, as illustrated in Nottingham where the City Council provides grants towards the operation of the venue
- should an SPV be formed, it should be independent to ensure that it is able to respond to market demand/ trends quickly and efficiently

- recruiting key staff from existing venues/ SPV's is important
- existing SPV structures would be willing to provide consultancy advise and or/ operational services to support any new SPV (likewise some private sector operators could also provide a range of services to supplement an SPV).

Further to the information relating to experience around the country, it is important to consider how Bristol might perform, based upon its previous experience. We understand from discussions with Council officers that there are two relevant examples of projects where the Council has followed a similar approach to that outlined above. These are described briefly below:

Bristol Sports Limited

- Bristol Sports Limited (BSL) was set up by the Council in 1995/6 as an arm's length company (sheltered through the Chamber of Commerce Initiative, now Business West) to run the Council's leisure management contract for pools and leisure centres
- BSL was a management company delivering a service, but only had limited influence over the facilities it managed
- it traded well for circa 5 years, however it was not in a position to raise funds to invest in the facilities and was therefore effectively managing a declining resource
- the Council retained responsibility for sports development, and excerpted control over the programming of the facilities (e.g. decisions relating to school swimming lessons), stifling BSL's ability to build an audience, promote activities and respond to market trends
- BSL was wholly dependent upon the Council for capital investment and ultimately could not compete with private sector providers when new companies entered the market
- ultimately, BSL got into financial difficulties and ceased trading – the Council then had to take over the staff and running of the facilities, subsequently and until this day outsourcing the services to the private sector.

Bristol Music Trust

- Bristol Music Trust (BMT) was set up in 2011, taking over the operation of Colston Hall from the Council (in-house). BMT also has wider responsibilities relating to music education etc.
- the decision to move from local authority operation to a Trust structure was greatly influenced by discussions with Arts Council England (ACE), that made it clear the venue would not be able to access National Portfolio funding if it was managed by the Council
- the Council provides a subsidy to the Trust to support its operations and objectives, and the Council retains ownership and some liability for the basic maintenance of the building
- since moving from Council operation to BMT, the venue has generated additional funding (e.g. one off ACE management development funding of £150k) and improved the bar/ catering sales (up £150k) and reduced operating costs
- the move to an independent Trust has also brought in new commercial expertise to the Board of Directors, and has proven more attractive in recruiting the senior management team.

The Council's experience in relation to Bristol Sports Limited should highlight the potential risks of structures where the Council is seeking to influence particular elements of a commercial business. This will equally apply to the operation of an arena, and in particular influence over the programming. It is important to recognise the magnitude of risk that would sit with the Council (ultimately) should it set up an SPV, which is even more evident in a scenario where it is a new business that requires significant expertise to set up and position correctly.

Table 9.3 below sets out the general advantages and disadvantages of an SPV approach.

Table 9.3 Advantages and disadvantages of an Arm's length company/ SPV

Advantages	Disadvantages
<ul style="list-style-type: none"> • 100% of any profit generated can be retained by the SPV/City without an operator taking a share • the Council could retain a degree of control through the governance and Board structure. This in turn should ensure that the venue is operated for the well-being of the City and its inhabitants and not purely commercial return. Objectives such as maximising cultural benefit, economic impact benefit and raising the city profile could perhaps be more easily realised by maintaining a degree of control through a company owned by the City, provided the necessary quality of people and processes is in place. For example, a decision to host a major International sports event for the tourism and profile benefits may be made ahead of a standard commercial concert, which might otherwise generate more revenue for the arena 	<ul style="list-style-type: none"> • ultimately, the Council is responsible for the building and the financial performance of the SPV • financial performance is not guaranteed, and therefore increases the risk to the Council to be able to repay any borrowing
<ul style="list-style-type: none"> • the new company may be used to channel/as a springboard for new or associated businesses. For example, the NEC Group has developed ticketing (The Ticket Factory), catering (Amadeus) and consultancy and management business (NEC Group International) from the arms-length SPV 	<ul style="list-style-type: none"> • the City would have to appoint staff with industry specific knowledge, expertise and market insight, and invest directly in establishing the necessary processes and systems that private operators have developed, which can take a considerable time to reach optimal sales and operation
<ul style="list-style-type: none"> • there is no profit/ incentive payment made to a third party, therefore in theory a greater return to the Council, however this not secured 	<ul style="list-style-type: none"> • costs are borne by the authority prior to the arena becoming operational, due to the need to ramp up staffing and develop the necessary processes and marketing efforts in advance, whereas under other options these costs could be borne by a private operator
	<ul style="list-style-type: none"> • significant governance and councillor and council official input required to oversee the operation of the company. In Birmingham the leaders of the three main political parties sit on the NEC Group Board. Such governance is considered acceptable based on a broad business with a turnover in excess of £130m. With a single arena operation it may be that such a governance structure is overly challenging and disproportionate to the scale of the entity.
	<ul style="list-style-type: none"> • future investment decisions may be constrained by public finances or political pressures.
	<ul style="list-style-type: none"> • Council control or influence is does not always have a positive impact upon the operation of

	venues, as it is harder for the venue to respond quickly to market trends and also to secure external investment – as has been the case in Bristol previously with Bristol Sports Limited (Council influenced sports centre operation that went into administration)
	<ul style="list-style-type: none"> • SPV is less able to respond to future market negative changes such as reduced touring patterns, or a new Cardiff venue

Summary of models

The management solution for an arena is informed by a series of factors, including:

- appetite for risk
- availability of, and requirement for, **guaranteed** income to support borrowing/repay investment
- desire for control over operations and programming
- private sector appetite for the project.

The alternative operating models have varying risk and reward profiles, which must be evaluated in light of the Council's specific requirements for the project and how the required outcomes are achieved.

Many authorities have historically preferred to outsource arena management to an established international organisation that has the key personnel, market knowledge, connections and processes, to ensure that the arena is effectively managed. This can either be done on a management contract basis or via a lease.

In strong markets, operators have shown that they are willing to take the risk on an arena's financial performance by guaranteeing an annual lease payment to the building owner. This money, backed by an international covenant, can be used to fund large capital sums through the public sector's prudential borrowing capabilities. This model as a result retains less involvement of/ control by the authority, though specific requirements can be written into the operator contract (albeit that this might impact the financial offer).

Each authority must balance risk and reward depending on the specifics of their project. One of the key items to facilitate this is a robust and detailed business plan that projects profit and loss over the long term to assist in the assessment of the most appropriate model, though the Council's political drivers and project vision will ultimately also inform the decision.

A business plan has been developed for each of the management scenarios set out above, and each is assessed in relation to the Council's overall objectives in the following sections.

10. Operational business planning

Introduction

This section sets out the outcomes of the business planning exercise. Key assumptions and parameters and assumptions have been discussed with the Council throughout the process.

Section 7 identified two primary facility options, as follows:

- Option 1: 12k capacity horseshoe arena
- Option 2: 12k capacity horseshoe arena plus an additional 1,000sqm of space

Capital cost estimates were provided for both options in Section 8.

Section 9 identified three management options for the arena, as follows:

- lease
- management agreement
- SPV.

By combining these two variables, there are six options for consideration, as shown in Table 10.1 below.

Table 10.1 Arena options for consideration

Option	Capacity/ configuration	Additional facilities	Management
1a	12k horseshoe	None	Lease
1b	12k horseshoe	None	Management Agreement
1c	12k horseshoe	None	SPV
2a	12k horseshoe	1,000 sqm for community use	Lease
2b	12k horseshoe	1,000 sqm for community use	Management Agreement
2c	12k horseshoe	1,000 sqm for community use	SPV

A 10 year business plan has been produced for each of the options identified above. This section:

- provides an overview of how an arena typically operates
- presents an indicative event programme for Bristol
- sets out the key assumptions utilised in the business planning exercise with key differences between models identified
- provides a summary of the business plan outputs.

The business plans developed have been used to inform the financial analysis set out in Section 11 and the overall options appraisal set out in Section 11. It should be noted that a risk adjustment is applied to the various models as part of the options appraisal section, rather than in this section.

The income to an arena is typically through the following sources:

- hire fees
- food and beverage sales
- premium seating
- commercial rights
- parking (if available)
- merchandising.

The venue can also benefit from selling tickets on behalf of the promoter, as it collects the add-on fees from this. From its income, the operator must cover all fixed venue costs and any variable event costs that are not rechargeable to the promoter.

Indicative event programme and attendances

We have developed indicative events programmes for the arena options in Bristol based on:

- operator and promoter discussions
- other consultation
- analysis of UK touring routes/event trends, including Pollstar and NAA data
- experience of delivering other arena developments in UK cities.

Table 10.2 overleaf sets out an indicative 5 year programme build up for Option 1a (12k horseshoe, lease model).

Table 10.2 Indicative event programme Option 1a (12k horseshoe, lease model)

Event type	Year 1	Year 2	Year 3	Year 4	Year 5
Concerts					
Major rock/pop concert	14	16	18	18	18
Medium rock/pop concert	13	14	15	15	15
Minor rock/pop concert	10	12	16	16	16
Classical concert	3	3	4	4	4
Sports events					
Sport - anchor tenant	0	0	0	0	0
Sport - major event	1	2	2	2	2
Sport - other	2	3	4	4	4
Entertainment					
Family shows	18	19	20	20	20
Musicals/theatre	6	7	8	8	8
Comedy	8	10	12	12	12
Other					
Dance shows	1	1	2	2	2
Community events	1	1	1	1	1
Exhibitions	2	2	4	4	4
Conferences	2	2	2	2	2
Banquets/ weddings	2	3	4	4	4
Other events	2	3	4	4	4
TOTAL	85	98	116	116	116

The programme reflects a mix of activities that we believe would be attracted to Bristol by a major arena operator (leasing the venue). It assumes that the arena performs well, and that the events market remains at a similar level to the past 5 years (with no significant dips).

Bristol is expected to host the same range of events as other UK arenas, with the exception of sport where we anticipate lower than average sports events, as there is no anchor tenant and no major sports event plan for the City.

For each type of event there will be one or more potential layouts of the venue with an associated capacity. We have estimated the average capacities for each type of event based on the proposed venue design and the typical scale of each of the event types. We have also estimated the average % of the event capacity sold for each type of event. This provides the venue attendance data within the business plans. The assumptions on the event capacities and attendances for Option 1a (mature year) are shown overleaf in Table 10.5.

Table 10.5 Average event capacities and attendances Option 1a (mature year)

Event type	Event capacity	Average % sold	Average attendance per event
Concerts			
Major rock/pop concert	12,000	90%	10,800
Medium rock/pop concert	10,000	85%	8,500
Minor rock/pop concert	8,000	75%	6,000
Classical concert	6,000	75%	4,500
Sports events			
Sport - anchor tenant	8,600	25%	2,150
Sport - major event	9,700	90%	8,730
Sport - other	9,700	50%	4,850
Entertainment			
Family shows	5,000	80%	4,000
Musicals/theatre	5,000	80%	4,000
Comedy	10,000	70%	7,000
Other			
Dance shows	6,000	80%	4,800
Community events	5,000	75%	3,750
Exhibitions	5,000	65%	3,250
Conferences	2,000	75%	1,500
Banquets/ weddings	2,000	75%	1,500
Other events	5,000	75%	3,750

Commercial and operating assumptions

The ultimate operating model adopted for the arena will depend upon the management option selected and how the operator or Council wish to structure the business. However, for the purposes of preparing this business plan, we have made the following operating assumptions:

- operating co will secure all commercial and naming rights partners, receiving all incomes and paying all expenses relating to these elements
- operating co will undertake Food & Beverage (F&B) services in-house (as opposed to contracting out)
- operating co is fully responsible for the operation, repair and maintenance of the building for the duration of the contract.

For options 1a and 2a (lease options) only, it is assumed that:

- operating co will fund the 'operator fit out' of the arena, the cost of which is amortised over the first 10 years of the business plan
- operating co will self-fund the pre-opening costs of the venue the cost of which is amortised over the first 5 years of the business plan.

For options 1b and 2b (Management Agreement) and 1c and 2c (SPV), it is assumed that:

- the pre-opening cost and the fit out costs will be funded by the Council and treated as capital funding, therefore not included within the business plan for these options (it is however considered in the wider funding appraisal in Section 11).

Table 10.6 below sets out the key business plan assumptions for the 12k capacity arena options (1a-c), identifying any difference in assumptions between the various types of management options. Table 10.7 sets out the key differences between the facility options 1 and 2.

Table 10.6 Business plan assumptions - redacted

Table 10.7 Differences between facility options 1 and 2

	12k capacity	12k capacity with additional 1,000 sqm
Area	24,400	25,400 (impacts upon maintenance)
Programme	• As set out earlier in this section	• no difference for auditorium events (main programme)
Café	• None	A 150sqm café (leased externally for £20 per sqft) will be open every day, and cater for education and community use F&B
Additional income sources	• None	Non-event days <ul style="list-style-type: none"> • community group hires • education usage • corporate events and weddings • small conferences/ meetings

		Event days <ul style="list-style-type: none"> • used to accommodate a Silver VIP package level on event day • pre/post event entertaining
Additional costs		<ul style="list-style-type: none"> • Cost of sales • Additional staffing (x2 FTE's) • Higher percentage non-event day utilities (2a 20%), 2b and 2c (40%)

Business plan outputs

Tables 10.8-10.14 redacted – commercially sensitive.

Whilst it appears that the management agreement options provide a potentially higher level of income to the Council, it should be noted that:

- a) these figures do not include the investment in pre-opening costs, fit out of the arena or set up costs in either the management agreement or SPV options (these are covered by the operator in the lease)
- b) there is no adjustment for risk/ sensitivity in terms of delivering the projections identified, and in the case of the SPV, these will be entirely at the Councils risk.

These items are taken into consideration in Section 11.

Car parking

As identified during the feasibility study and confirmed throughout the OBC process, car parking is an important consideration for the project. As with any project, there are the planning, transport and access considerations. However with an arena, car parking also has significant commercial potential. For example, the Leeds Arena, which opened in July 2013, was almost one third funded by car parking deals negotiated with adjoining landowners and stakeholders.

Based upon the recommendations in the feasibility study, the Council has progressed the project on the assumption that car parking income generated by the arena can be captured and used to support part of the borrowing required to fund the project. The Council is currently developing a Parking Strategy for the wider TQEZ, and the arena Project Director is closely involved in this process to ensure that the potential to secure income from arena parking is maximised. There are various options/ mechanisms being explored as to how the Council will be able to collect the income generated, including:

- collecting income from Council owned (existing) car parking spaces within the vicinity (part of the Leeds arena model)
- striking a deal with third party car park owners (part of the Leeds arena model)
- developing a new Council owned car park in the TQEZ, based on non-arena demand and identifying the marginal benefit of the arena demand.

The feasibility study provided an early estimate of the potential value of arena event car parking. Redacted

11. Options analysis

Introduction

Previous sections of this report have identified the following:

- the Council vision and objectives and wider context of the arena project
- the needs of the market including stakeholder, promoter, and operator consultation
- the arena configuration and scale appropriate for the arena to meet identified objectives
- the various potential arena facility and management options; including a business plan for each and capital cost analysis.

Structure of options analysis

This section presents a full options analysis of the six options identified in Section 10 and repeated below for ease of reference.

Table 11.1 Options

Option	Capacity/ configuration	Additional facilities	Management
1a	12k horseshoe	None	Lease
1b	12k horseshoe	None	Management Agreement
1c	12k horseshoe	None	SPV
2a	12k horseshoe	1,000 sqm for community use	Lease
2b	12k horseshoe	1,000 sqm for community use	Management Agreement
2c	12k horseshoe	1,000 sqm for community use	SPV

The options analysis includes both a qualitative and financial assessment of each option and combines the findings to identify a preferred option for further development.

The criteria and weightings used for the qualitative analysis, and the weightings of the qualitative and financial assessments were discussed and agreed with the Council and the Mayor. The qualitative assessment has a 40% overall weighting and the financial assessment a 60% overall weighting.

The options appraisal is set out on the following pages.

Qualitative analysis

Table 11.2 below sets out the qualitative criteria agreed with the Council, and their relative importance (weighting) against which the qualitative requirements have been assessed:

Table 11.2 Qualitative evaluation criteria and weighting

Qualitative Evaluation Criteria	Weighting
1. Overall fit with BCC Vision statement	25%
2. Deliverability	25%
3. Potential to maximise community use	10%
4. Council input/control programme & operations	20%
5. Operational risk transfer	20%

Table 11.3 over the page provides an explanation of the agreed evaluation criteria and the scoring scale to be used to assess each of the options.

Table 11.3 Qualitative evaluation and scoring criteria

Evaluation Criteria	Description	Scoring Criteria					
		0	1	2	3	4	5
1. Overall fit with BCC Vision statement	How the new arena fits with the Council's established project vision and objectives – in relation to the overall vision, the experience, the building and interaction with the rest of the site. Key areas include: commercially driven, no on-going revenue cost, economic impact, public usage, wide range of content, Bristol experience, future proof,	No fit with Council vision	Poor fit with Council vision	Limited fit with Council vision	Satisfactory fit with Council vision	Good fit with Council vision	Excellent fit with Council vision
2. Deliverability	<p>An assessment of the likelihood of:</p> <ul style="list-style-type: none"> - the initial deliverability of the project; including the level of market interest, the expertise required internally, the impact upon procurement process (e.g. input into designs) and impact upon the delivery timetable. - the longer term deliverability of the venue; the likelihood of successful day to day operation, experience and expertise required, knowledge, systems, processes, experience within organisation, level of on-going input required from BCC internally. <p>It is important to note that the deliverability of financial projections for each of the arena options is not included here; it is considered in the financial assessment.</p>	No likelihood of delivering the project	Likelihood of delivering the project is poor	Likelihood of delivering the project is limited	Likelihood of delivering the project is satisfactory	Strong likelihood of delivering the project	Maximises likelihood of project delivery
3. Potential to maximise community use	An assessment of the potential for the arena and associated space to be used / accessed by the local Bristol community	There is no potential for community use	Poor potential for community use	Limited potential for community use	Some potential for community use	Good potential for community	Maximises potential for community use
4. Council input/control programme & operations	An assessment of the capacity for the Council to input into the general operation and programming of the arena.	No Council input/control	Minimal potential for Council input/control	Limited potential for Council input/control	Some potential for Council input / control	Good potential for Council input / control	Maximises Council input / control
5. Operational risk transfer	The level of operational risk that is passed to the operator versus the level retained by the Council. Operational risk includes; financial performance, programme/event numbers, commercial rights, management, staffing, food & beverage & merchandising, ticketing, repairs and maintenance, event creation.	No risk transfer	Minimal risk transfer	Limited risk transfer	Some risk transfer	High degree of risk transfer	Maximises risk transfer

Option 1 Qualitative assessment

Table 11.4 below assesses option 1a, 1b, and 1c against the qualitative evaluation criteria, providing a score for each criteria and a total score per option.

Table 11.4 Option 1a, 1b and 1c qualitative assessment and scoring

12,000 capacity horseshoe arena	Option 1a Lease		Option 1b Management Agreement		Option 1c Special Purpose Vehicle (SPV)	
	Landlord grants use/occupation for a specified period of time in return for a rent – can be fixed amount, variable or combination of both. Various types of lease depending on landlords' requirements. Arena operator (tenant): - responsible for all costs - retains income & operating profits - typically 20-30 year term		Operator receives a base annual payment to operate the venue on behalf of the owner. Profit share agreement with the operator is also common. Typically, owner benefits from the operating profit, but would also be responsible for any losses. Can pass some risk to operator, impact on base payment. Typically, minimum of 5 years Analysis below assumes some risk transfer e.g. expenditure		SPV or new arm's length company formed by the Council to operate the arena. When? Lease or MA don't offer VFM, not enough market interest, Council has specific outcomes that are less commercial in nature. If formed as a Trust or NPDO then it can receive tax benefits such as VAT & rate relief (bit not for whole operation)	
Evaluation Criteria	Comments	Score	Comments	Score	Comments	Score
1. Fit with BCC Vision statement	<ul style="list-style-type: none"> operators are incentivised to manage the venue effectively guaranteed financial return for the Council experience, expertise and contacts of established venue operator – wide range of content & full programme, experience of service delivery will help content will be driven by commercial objectives – may impact on range offered maximises opportunity to secure operator investment in the venue – in turn will ensure the long-term sustainability of the venue <p><i>commercially driven, chances of no ongoing revenue cost is good, more certainty due to experience, less public usage, potentially less breadth of content, Bristol experience maybe not priority,</i></p>	3	<ul style="list-style-type: none"> gain experience, expertise and contacts of established venue operator – wide range of content & full programme may be an ongoing annual revenue cost to the Council council would receive benefit of any operating profits (not guaranteed return) profit share agreement can be used to incentivise operator to manage the venue efficiently & commercially potential for Council to set own goals & targets – may impact base fee typically, shorter term of contract therefore more flexibility to change for the Council potential for less incentive/flexibility for the operator to optimise financial performance than lease difficult to secure investment in the project from the operator e.g. FF&E due to short term nature <p><i>more Council input & control, more flex, still experience of operator, still commercially driven,</i></p> <p><i>score of 4 assumes that there will be some level of flex with the operator regarding the Council's requirements ref community but will not achieve all objectives and also, recognise this may have financial implications</i></p>	4	<ul style="list-style-type: none"> BCC control and input - City retains control through governance & board structure – ensure arena is operated for the well-being of the city range of content can be influenced by the Council may not be considered as 'commercially driven' - programme may not be comparable to commercial operator in first 5 years No guaranteed returns 100% of any profit generated is retained by SPV/City Bristol experience likely to be more achievable <p><i>4 because of programme & experience - obtaining the appropriate staff with appropriate experience key – without this could seriously affect the performance & experience of the customers. Could be mitigated through services contract with experienced operator.</i></p>	4

12,000 capacity horseshoe arena	Option 1a Lease		Option 1b Management Agreement		Option 1c Special Purpose Vehicle (SPV)	
	Landlord grants use/occupation for a specified period of time in return for a rent – can be fixed amount, variable or combination of both. Various types of lease depending on landlords' requirements. Arena operator (tenant): - responsible for all costs - retains income & operating profits - typically 20-30 year term		Operator receives a base annual payment to operate the venue on behalf of the owner. Profit share agreement with the operator is also common. Typically, owner benefits from the operating profit, but would also be responsible for any losses. Can pass some risk to operator, impact on base payment. Typically, minimum of 5 years Analysis below assumes some risk transfer e.g. expenditure		SPV or new arm's length company formed by the Council to operate the arena. When? Lease or MA don't offer VFM, not enough market interest, Council has specific outcomes that are less commercial in nature. If formed as a Trust or NPDO then it can receive tax benefits such as VAT & rate relief (bit not for whole operation)	
2. Deliverability	<ul style="list-style-type: none"> - market interest high from all operators consulted – excellent position to be in - BCC can use guaranteed income stream, borrow against to fund construction - experience, expertise and contacts of established venue operator - long term commitment through lease is likely to incur more buy in to the overall project and overall outcomes from the operator - little Council resourcing required on an on-going basis - enables input from operator at design stage <p><i>Option with the most certainty – good interest from the market; tested procurement</i></p>	5	<ul style="list-style-type: none"> - maximises market interest (as there is less risk for operator) - experience, expertise and contacts of established venue operator - would need expertise internally within the Council for the management, monitoring and renewal of the contract 	4	<ul style="list-style-type: none"> - the Council would need to recruit relevant expertise and experience necessary - the Council would need to invest in the processes and systems that private operators already have developed - pre-opening costs borne by the Council (other options borne by operator) - significant governance & councillor input required to oversee the operation of the company - challenging proposition for the Council to establish a successful SPV - danger that timing of establishing SPV may restrict operator input into the design and specification of the arena <p><i>Will require a lot of resource, potentially take a longer, least certainty in terms of timetable</i></p>	3
3. Potential to maximise community use	<ul style="list-style-type: none"> - likely to be limited - operator will be commercially driven – community use maybe not high on priority - can be included in lease agreement, will impact on the rent received 	2	<ul style="list-style-type: none"> - potential (subject to type of agreement) - likely to impact on annual base fee <p><i>Can input into agreement, shorter term</i></p>	3	<ul style="list-style-type: none"> - good - City retains control through governance & board structure – ensure arena is operated for the well-being of the city - Council objectives in terms of programming perhaps more easily achieved 	4

12,000 capacity horseshoe arena	Option 1a Lease		Option 1b Management Agreement		Option 1c Special Purpose Vehicle (SPV)	
	Landlord grants use/occupation for a specified period of time in return for a rent – can be fixed amount, variable or combination of both. Various types of lease depending on landlords' requirements. Arena operator (tenant): - responsible for all costs - retains income & operating profits - typically 20-30 year term		Operator receives a base annual payment to operate the venue on behalf of the owner. Profit share agreement with the operator is also common. Typically, owner benefits from the operating profit, but would also be responsible for any losses. Can pass some risk to operator, impact on base payment. Typically, minimum of 5 years Analysis below assumes some risk transfer e.g. expenditure		SPV or new arm's length company formed by the Council to operate the arena. When? Lease or MA don't offer VFM, not enough market interest, Council has specific outcomes that are less commercial in nature. If formed as a Trust or NPDO then it can receive tax benefits such as VAT & rate relief (bit not for whole operation)	
4. Council input/control programme & operations	<ul style="list-style-type: none"> - limited - input and control only at the start - reduces or removes Council control over arena operation and programming - input in the venue is difficult to incorporate into a lease, and the more control required, the lower the guaranteed financial return will be - operators require all activities to take the risk on a lease (e.g. naming rights, F&B etc.) - reduces overall flexibility of the Council - long-term agreement 	1	<ul style="list-style-type: none"> - yes (subject to type of agreement) - enables Council to set its own goals & targets for the operation of the arena - typically, shorter term of contract therefore gives the Council a little more overall flexibility 	3	<ul style="list-style-type: none"> - City retains control through SPV governance & board structure - Council objectives in terms of programming perhaps more easily achieved (commerciality not the only focus) 	5
5. Operational risk transfer	<ul style="list-style-type: none"> - FRI lease - operator takes all operating risk, including financial and R&M - the only risk retained by the Council is if the operator goes bust 	5	<ul style="list-style-type: none"> - Standard: Council exposed to operating financial risk – low profits would impact ability to repay borrowing. - Potential: it is possible to pass some of the risk to the operator but would impact the base annual fee e.g. make it to zero net position <p><i>Score of 3 assumes that there will be some level of risk transfer e.g. expenditure, but not to the extent of capping Council liabilities for example.</i></p>	3	<ul style="list-style-type: none"> - Council exposed to all operating risk – service delivery and financial - low profits would impact ability to repay borrowing 	0
Total Score	16		17		16	

Option 2 Qualitative assessment

Option two provides the addition of 1000sqm of community space, the other details of the option remain exactly the same as option 1. This review therefore, does not assess the base management option (lease, management agreement or SPV) against the criteria again, but rather how the addition of the community space under each of the management options will affect the achieved score against the evaluation criteria. Table 11.5 below assesses option 2a, 2b, and 2c against the qualitative evaluation criteria, providing a score for each criteria, a total score per option and commentary/rationale for any difference in score. It is important to note that all financial implications are considered in the financial/economic analysis later in this section.

Table 11.5 Option 2a, 2b and 2c qualitative assessment and scoring

12,000 capacity horseshoe arena + an additional 1,000sqm of space	Option 2a Lease	Option 2b Management Agreement	Option 2c Special Purpose Vehicle (SPV)	Commentary / rationale for difference with option 1
Evaluation Criteria	Score	Score	Score	Score
Fit with BCC Vision statement	3	4	5	Whilst the building will offer additional community space, the key will be how space will be utilised under each of the options. It is considered that this will only significantly change in relation to option 2c; therefore an improved score has been allocated to reflect that the SPV option will really maximise the increase public usage of the facility as a priority.
Deliverability	5	4	3	No change in deliverability assumed
Potential to maximise community use	3	4	5	It is assumed that the additional space provided will enhance the potential to maximise community use across all options, therefore an improved score has been allocated across all three options.
Council input/control programme & operations	1	3	5	No change in the level of Council input / control assumed
Operational risk transfer	5	3	0	No change in the level of risk transfer achievable has been assumed

12,000 capacity horseshoe arena + an additional 1,000sqm of space	Option 2a Lease	Option 2b Management Agreement	Option 2c Special Purpose Vehicle (SPV)	Commentary / rationale for difference with option 1
Total Score	17	18	18	

Summary of qualitative assessment

Table 11.6 below provides a summary of the scores awarded in the qualitative assessment of each of the project options.

It can be seen from the table that:

- Option 2b scores the highest and Option 1b the next highest – both are the management agreement options, it can be seen that these score between 3-4 across all categories, whereas the other options score higher on some items and lower on others
- Option 2b scores higher than the equivalent option 1 (i.e. with the same management type) – this is because option 2 provides the additional opportunities for community use, which better meets the overall project vision and community use criteria.

Table 11.6 Summary of qualitative assessment scores

		Option 1a 12k		Option 1b 12k		Option 1c 12k		Option 2a 12k +1,000 sqm		Option 2b 12k +1,000 sqm		Option 2c 12k +1,000 sqm	
		Score	Weighted %	Score	Weighted %	Score	Weighted %	Score	Weighted %	Score	Weighted %	Score	Weighted %
Qualitative assessment													
Fit with overall vision	25%	3	15%	4	20%	4	20%	3	15%	4	20%	5	25%
Deliverability	25%	5	25%	4	20%	3	15%	5	25%	4	20%	3	15%
Community use	10%	2	4%	3	6%	4	8%	3	6%	4	8%	5	10%
Council control/ input	20%	1	4%	3	12%	5	20%	1	4%	3	12%	5	20%
Risk transfer	20%	5	20%	3	12%	0	0%	5	20%	3	12%	0	0%
TOTAL score	100%	16	68%	17	70%	16	63%	17	70%	18	72%	18	70%
RANK			5		2		6		3		1		3

The following pages set out the financial analysis and then combine both the qualitative and financial analysis.

Financial appraisal

A financial appraisal of each of the six options has been undertaken as part of the options analysis. The purpose of the financial appraisals is to provide a fair comparison between options, and further sensitivity analysis of the preferred option is provided at the end of this section.

The financial appraisal is weighted at 60% of the overall options appraisal.

Funding assumptions

The Council's overarching funding assumptions for the project are as follows:

- arena income based loan – the Council will use the income from the arena operation and arena related car parking to support an annuity loan from the Public Works Loans Board, known as Prudential Borrowing
- the remainder of the funding required is assumed to be provided through a mixture of the following sources:
 - an interest only Prudential Borrowing loan
 - initially supported by any additional or index linked income generated by the arena and not required to repay the annuity loan
 - retained business rates from the TQEZ – it is anticipated that this income would take longer to come forward and would therefore be used to repay the capital on the loan
 - additional Council income from other sources
 - alternative sources of funding/grant
 - sale of Council land/assets.

At the Council's request, this OBC only considers the potential level of funding the arena and associated car parking will generate to support the annuity loan. The Council is investigating the other funding sources independently.

The financial appraisals identify the total cost of each project option and the maximum annuity loan amount that the option could support through income generation. This will result in a residual funding requirement that will need to be met by the other methods set out above.

Financial appraisals – assumptions

The key assumptions used in developing the appraisals are provided in table 11.7 overleaf. The assumptions represent the base position, to which an Optimism Bias and risk adjustment has been applied to each option to facilitate comparison between options.

Table 11.7 Key assumptions for financial appraisal

Item	12k capacity horseshoe			12k capacity horseshoe with additional 1,000 sqm		
	Option 1a Lease	Option 1b Man Agreement	Option 1c SPV	Option 2a Lease	Option 2b Man Agreement	Option 2c
COSTS						
Arena development (outturn) costs including FF&E	£80.25m (detailed in Section 8)	£80.25m (detailed in Section 8)	£80.25m (detailed in Section 8)	£80.25m (detailed in Section 8)	£80.25m (detailed in Section 8)	£80.25m (detailed in Section 8)
External works	£8.11m (detailed in Section 8)	£8.11m (detailed in Section 8)	£8.11m (detailed in Section 8)	£8.11m (detailed in Section 8)	£8.11m (detailed in Section 8)	£8.11m (detailed in Section 8)
Additional cost of 1,000 sqm (outturn)				£3.289m	£3.289m	£3.289m
Additional allowance for external visitor attractions	£350k	£350k	£350k	£350k	£350k	£350k
Bristol City Council project development costs	£1.8m (figure provided by the Council)	£1.8m (figure provided by the Council)	£1.8m (figure provided by the Council)	£1.8m (figure provided by the Council)	£1.8m (figure provided by the Council)	£1.8m (figure provided by the Council)
Pre-opening costs	Operator to cover costs (included in business plan)	£1.285m (estimated in business plan)	£1.58m (pre-opening costs estimated in business plan plus £350k SPV set up costs)	Operator to cover costs (included in business plan)	£1.285m (estimated in business plan)	£1.58m (pre-opening costs estimated in business plan plus £350k SPV set up costs)

Table 11.7 Key assumptions for financial appraisal continued

Item	12k capacity horseshoe			12k capacity horseshoe with additional 1,000 sqm		
	Option 1a Lease	Option 1b Man Agreement	Option 1c SPV	Option 2a Lease	Option 2b Man Agreement	Option 2c
FUNDING						
Annuity loan amount	Annual repayment amount for annuity loan based upon year 3 income to the Council, to enable a fairer comparison between options, as using year 1 would unfairly favour the lease option. The income is from both car parking and arena. Annuity loan amount is based on a flat rate repayment of capital and interest over 25 years at 4.5% interest rate (slightly higher than current PWLB rates, as advised by the Council).					
FF&E contribution	£3.82m (operator would cover fit out costs, included in lease business plan)	None to be funded as capital by the Council	None to be funded as capital by the Council	£3.95m (operator would cover fit out costs, included in lease business plan)	None to be funded as capital by the Council	None to be funded as capital by the Council
Council development costs funded	£250k	£250k	£250k	£250k	£250k	£250k
Gap funding requirement	The gap funding requirement is the total development cost of the project, less the annuity loan amount supported by the arena option.					

The following table sets out the Optimism Bias and risk adjustments applied to each option.

Table 11.8 Optimism Bias and risk adjustments

Item	12k capacity horseshoe			12k capacity horseshoe with additional 1,000 sqm		
	Option 1a Lease	Option 1b Man Agreement	Option 1c SPV	Option 2a Lease	Option 2b Man Agreement	Option 2c
Total costs	A 13% (Optimism Bias) increase in total development costs has been applied to all options. The figure of 13% represents a mid-point in the Council's track record of capital project delivery (typically between 10-15%).					
Arena income	A reduction (risk adjustment) of 5% in arena rent (income to the Council) has been applied to the lease option as it has the highest level of certainty and lowest risk. Once procured, the Council will be guaranteed a fixed income by the operator, with no market/ operational risk.	A reduction (risk adjustment) of 20% in net profit (income to the Council) has been applied to the management agreement option as it has less certainty than the lease option. Whilst having an operator partner on board will improve deliverability, the revenues achieved will only be known year on year and the Council is ultimately facing operational and market risk.	A reduction (risk adjustment) of 50% in net profit (income to the Council) has been applied to the SPV option as it is the least certain and most risky option for the Council. The Council take full market and operational risk, and incomes will only be known year on year with no certainty. The Council's previous experience in similar circumstances and the market characteristics mean that it is prudent to apply a high risk adjustment.	A reduction (risk adjustment) of 5% in arena rent (income to the Council) has been applied to the lease option as it has the highest level of certainty and lowest risk. Once procured, the Council will be guaranteed a fixed income by the operator, with no market/ operational risk.	A reduction (risk adjustment) of 20% in net profit (income to the Council) has been applied to the management agreement option as it has less certainty than the lease option. Whilst having an operator partner on board will improve deliverability, the revenues achieved will only be known year on year and the Council is ultimately facing operational and market risk.	A reduction (risk adjustment) of 50% in net profit (income to the Council) has been applied to the SPV option as it is the least certain and most risky option for the Council. The Council take full market and operational risk, and incomes will only be known year on year with no certainty. The Council's previous experience in similar circumstances and the market characteristics mean that it is prudent to apply a high risk adjustment.
Car parking income	A reduction (risk adjustment) of 25% car parking income has been applied across all options, as the delivery of the parking income is not contingent on the option. 25% is considered a reasonable adjustment to reflect the fact that the mechanism for delivery is not yet developed.					

Table 11.9 below and 11.10 overleaf present the outcome of the financial analysis. Table 11.9 sets out the base position for each option, and Table 11.10 sets out the outcome with Optimism Bias and risk adjustments applied. The latter is to be included in the overall options analysis.

Table 11.9 Summary of financial options appraisal (base position)

	Option 1a Lease	Option 1b Management A	Option 1c SPV	Option 2a Lease (+1k)	Option 2b Man A (+1k)	Option 2c SPV (1k)
Arena development costs						
Horseshoe Configuration	£55,072,000	£55,072,000	£55,072,000	£55,072,000	£55,072,000	£55,072,000
Base Cost - Horseshoe	£8,261,000	£8,261,000	£8,261,000	£8,261,000	£8,261,000	£8,261,000
FF&E at 5%	£3,167,000	£3,167,000	£3,167,000	£3,167,000	£3,167,000	£3,167,000
Fees at 15%	£6,650,000	£6,650,000	£6,650,000	£6,650,000	£6,650,000	£6,650,000
Inflation from August 2013 to SoS November 2015 at 9.71%	£7,100,000	£7,100,000	£7,100,000	£7,100,000	£7,100,000	£7,100,000
Sub-total	£80,250,000	£80,250,000	£80,250,000	£80,250,000	£80,250,000	£80,250,000
External Infrastructure Works and Site Abnormals	£8,110,000	£8,110,000	£8,110,000	£8,110,000	£8,110,000	£8,110,000
E/O for 1,000 sqm	£0	£0		£3,289,000	£3,289,000	£3,289,000
Subtotal	£88,360,000	£88,360,000	£88,360,000	£91,649,000	£91,649,000	£91,649,000
Additional allowance for external visitor attractions	£350,000	£350,000	£350,000	£350,000	£350,000	£350,000
Bristol City Council development costs	£1,800,000	£1,800,000	£1,800,000	£1,800,000	£1,800,000	£1,800,000
Pre-opening costs		£1,285,903	£1,579,434		£1,285,903	£1,579,434
TOTAL	£90,510,000	£91,795,903	£92,089,434	£93,799,000	£93,799,000	£95,378,434
			£0			
Annuity loan amount	£34,041,100	£43,650,270	£32,504,535	£34,840,993	£43,633,055	£32,877,870
FF&E contribution	£3,821,967	£0	£0	£3,951,745	£0	£0
Council development costs funded	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000
Gap funding requirement	-£52,396,933	-£47,895,633	-£59,334,899	-£54,756,262	-£49,915,945	-£62,250,564

Table 11.10 Summary of financial options appraisal (including optimism bias and risk adjustment)

	Option 1a Lease	Option 1b Management A	Option 1c SPV	Option 2a Lease (+1k)	Option 2b Man A (+1k)	Option 2c SPV (1k)
Arena development costs						
Horseshoe Configuration	£55,072,000	£55,072,000	£55,072,000	£55,072,000	£55,072,000	£55,072,000
Base Cost - Horseshoe	£8,261,000	£8,261,000	£8,261,000	£8,261,000	£8,261,000	£8,261,000
FF&E at 5%	£3,167,000	£3,167,000	£3,167,000	£3,167,000	£3,167,000	£3,167,000
Fees at 15%	£6,650,000	£6,650,000	£6,650,000	£6,650,000	£6,650,000	£6,650,000
Inflation from August 2013 to SoS November 2015 at 9.71%	£7,100,000	£7,100,000	£7,100,000	£7,100,000	£7,100,000	£7,100,000
Sub-total	£80,250,000	£80,250,000	£80,250,000	£80,250,000	£80,250,000	£80,250,000
External Infrastructure Works and Site Abnormals	£8,110,000	£8,110,000	£8,110,000	£8,110,000	£8,110,000	£8,110,000
E/O for 1,000 sqm				£3,289,000	£3,289,000	£3,289,000
Subtotal	£88,360,000	£88,360,000	£88,360,000	£91,649,000	£91,649,000	£91,649,000
Additional allowance for external visitor attractions	£350,000	£350,000	£350,000	£350,000	£350,000	£350,000
Bristol City Council development costs	£1,800,000	£1,800,000	£1,800,000	£1,800,000	£1,800,000	£1,800,000
BCC assumed interest during construction	£0	£0	£0	£0	£0	£0
Pre-opening costs		£1,285,903	£1,579,434		£1,285,903	£1,579,434
Optimism Bias	£11,766,300	£11,766,300	£11,766,300	£12,193,870	£12,193,870	£12,193,870
TOTAL	£102,276,300	£103,729,370	£104,061,060	£105,992,870	£105,992,870	£107,777,630
Annuity loan amount	£30,340,620	£34,406,855	£18,436,870	£31,100,520	£34,393,080	£18,623,540
FF&E contribution	£4,318,823	£0	£0	£4,465,472	£0	£0
Council development costs funded	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000
Gap funding requirement	-£67,366,857	-£69,072,515	-£85,374,190	-£70,176,878	-£71,349,790	-£88,904,090

The total impact of Optimism Bias and risk adjustment to each of the options is as follows:

- Option 1a (12k lease) - **£14,969,924**
- Option 1b (12k management agreement) - **£21,176,882**
- Option 1c (12k SPV) - **£26,039,291**
- Option 2a (12k+additional space, lease) - **£15,420,616**
- Option 2b (12k +additional space, management agreement) - **£21,433,845**
- Option 2c (12k +additional space, SPV) - **£26,653,526**

It can be seen from Table 11.9 that overall Option 1 provides a lower gap funding requirement than Option 2, when assuming the same type of management. It can also be seen that before applying any Optimism Bias or risk adjustment, Option 1b and 2b (management agreement) provides the lowest funding gap (at £47.9m and £50m respectively) with Options 1a and 2a (lease) providing the second lowest gap funding requirement (at £52.4m and £54.8m respectively). SPV options 1c and 2c result in a funding gap of £59.4m and £62.3m respectively.

When including the relevant Optimism Bias and risk adjustments, the options rank as follows:

- Option 1a (lease) - £67.4m gap funding requirement
- Option 1b (management agreement) – £69m gap funding requirement
- Option 2a (lease) - £70.2m gap funding requirement
- Option 2b (management agreement) – £71.4m gap funding requirement
- Option 1c (SPV) - £85.4m gap funding requirement
- Option 2c (SPV) - £88.9m gap funding requirement

It can be seen that from a gap funding and risk perspective, facility Option 1 has a lower gap funding requirement and option 1a (lease) has the lowest gap funding requirement.

The financial scoring for the options appraisal has been undertaken on a relative basis. The lowest gap funding requirement is awarded 100% and all other options are scored based upon the percentage difference to the lowest option. For every 1% higher the gap funding requirement is, the score is reduced by 1%. For example, if an option had a 20% higher gap funding requirement than the lowest gap funding option, it would score 80% compared to 100% for the lowest gap funding option. Table 11.11 below sets out the relative financial scores for each option based upon the Optimism Bias and risk adjusted assessments.

Table 11.11 Financial appraisal scores

	Option 1a	Option 1b	Option 1c	Option 2a	Option 2b	Option 2c
	12k Lease	12k Man	12k SPV	12k +1,000 sqm	12k +1,000 sqm	12k +1,000 sqm
Gap funding requirement	£67,366,857	£69,072,515	£85,374,190	£70,176,878	£71,349,790	£88,904,090
TOTAL score	100%	97%	73%	96%	94%	68%
RANK	1	2	5	3	4	6

These scores have been weighted at 60% of the overall evaluation and combined with the qualitative scores in the following pages.

Overall options appraisal

Table 11.12 sets out the outcome of the combined qualitative and financial options appraisal.

Table 11.12 Overall summary of options appraisal

	Option 1a	Option 1b	Option 1c	Option 2a	Option 2b	Option 2c
	12k Lease	12k Man Agreement	12k SPV	12k +1,000 sqm Lease	12k +1,000 sqm - Man Agreement	12k +1,000 sqm Lease
Qualitative assessment (40%)						
Fit with overall vision (10%)	6.0%	8.0%	8.0%	6.0%	8.0%	10.0%
Deliverability (10%)	10.0%	8.0%	6.0%	10.0%	8.0%	6.0%
Community use (4%)	1.6%	2.4%	3.2%	2.4%	3.2%	4.0%
Council control/ input (8%)	1.6%	4.8%	8.0%	1.6%	4.8%	8.0%
Risk transfer (8%)	8.0%	4.8%	0.0%	8.0%	4.8%	0.0%
Sub-total (out of 40%)	27%	28%	25%	28%	29%	28%
Financial assessment (60%)						
Gap funding requirement	60.0%	58.5%	44.0%	57.5%	56.5%	40.8%
TOTAL	87.2%	86.5%	69.2%	85.5%	85.3%	68.8%
RANK	1	2	5	3	4	6

Taking into account both qualitative and financial assessment parameters, the options can be ranked as follows:

1. Option 1a: 87.2%
2. Option 1b: 86.5%
3. Option 2a: 85.5%
4. Option 2b: 85.3%
5. Option 1c: 69.2%
6. Option 2c: 68.8%

It can be seen from this analysis, that the lease option 1a scores the highest overall, with management agreement option 1b scoring only 0.7% less in second place. Options 2a and 2b also score well and are closely placed behind options 1a and 1b. The SPV options score the lowest by more than 15%.

In all cases, Option 1 scored better than Option 2 when considering the same management type.

12. Preferred option

Based upon the options analysis undertaken, the preferred option is Option 1a, 12k capacity horseshoe arena operated under a lease. It scored the highest overall, and had the lowest gap funding requirement once Optimism Bias and risk adjustment were applied.

This section provides some further analysis of the preferred option.

Sensitivity analysis

Using the Option 1a base business plan as the basis for the sensitivity analysis, the following two sensitivities have been undertaken:

- 10% reduction in arena income plus a 100 space reduction in car parking (to 900 spaces)
- 10% increase in arena costs plus a 100 space reduction in car parking (to 900 spaces)

Profit and loss summaries for each sensitivity are presented in Tables 12.1 and 12.2 overleaf (redacted).

The impact of this sensitivity on the overall funding position is presented in Table 12.3. It can be seen from Table 12.3 that:

- a 10% reduction in arena income and 100 less car parking spaces results in a gap funding requirement of **£63.6m** compared with £52.4m (base case not adjusted for risk or Optimism Bias)
- a 10% increase in arena expenditure and 100 less car parking spaces results in a gap funding requirement of **£60.7m** compared with £52.4m (base case not adjusted for risk or Optimism Bias).

Further sensitivity analysis can and should be undertaken as the project progresses.

Table 12.3 Impact of sensitivity on overall funding

	Sensitivity 1	Sensitivity 2
Arena development costs	£	£
Base Cost - Horseshoe	£55,072,000	£55,072,000
Fees at 15 %	£8,261,000	£8,261,000
FF&E at 5%	£3,167,000	£3,167,000
Development Contingency at 10%	£6,650,000	£6,650,000
Inflation from August 2013 to SoS November 2015 at 9.71%	£7,100,000	£7,100,000
Sub-total	£80,250,000	£80,250,000
External Infrastructure Works and Site Abnormals	£8,110,000	£8,110,000
Total Cost - Base Options	£88,360,000	£88,360,000
Additional allowance for external visitor attractions	£350,000	£350,000
Bristol City Council development costs	£1,800,000	£1,800,000
TOTAL	£90,510,000	£90,510,000
	£0	£0
Annuity loan amount	£23,045,950	£26,004,860
FF&E contribution	£3,821,967	£3,821,967
Council development costs already covered	£250,000	£250,000
Gap funding requirement	-£63,642,083	-£60,683,173

Additional funding opportunities/ considerations

As set out earlier in this section, the Council is progressing the project on the basis of an arena based loan (covered in detail in this section) and the 'gap funding' will be sourced from the following:

- an interest only Prudential Borrowing loan
 - initially supported by any additional or index linked income generated by the arena and not required to repay the annuity loan
 - retained business rates from the TQEZ – it is anticipated that this income would take longer to come forward and would therefore be used to repay the capital on the loan
 - additional Council income from other sources
- alternative sources of funding/grant
- sale of Council land/ assets.

To assist the Council in its analysis, we present below a headline assessment of the potential value of the difference between the annuity repayment amount and the growth in income to the Council over the term of the loan for the preferred option. We then go on to describe some potential other sources of income/value for the Council to consider further as it develops the project.

Typical operator rental deals

A typical operator rental deal might be structured as follows:

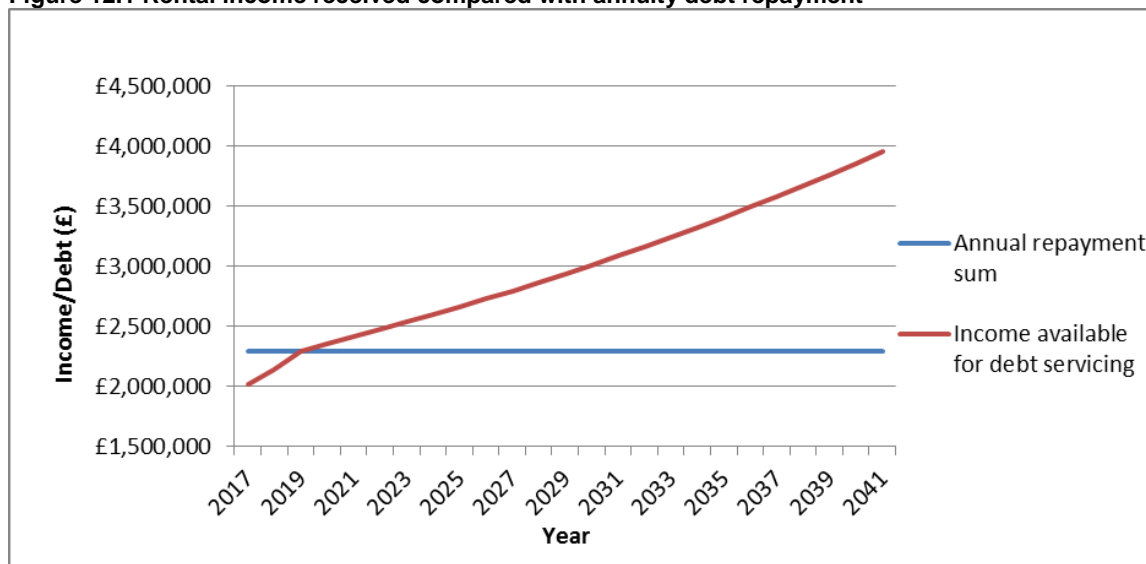
- 20-30 year Full Repairing and Insuring or Internal Repairing and Insuring lease
- guaranteed annual rental, likely to be index linked
- contribution to FF&E
- other features could include a turnover share, profit share (EBIT), profit share (specific items, such as Naming Rights).

This is typical of the type of offer we have seen in other projects and deals that we have negotiated. In the assessment in Section 11, only the annual fixed rental income and the contribution to FF&E were factored in. This means that the potential for an additional turnover rent, profit share on EBIT or other specific items are things to explore in negotiations with the operators, to improve the potential upside for Council.

Impact of indexation

Specifically, the analysis in Section 11 does not illustrate the potential benefits of receiving an index linked payment each year, as we have assumed a flat rate annuity repayment profile. Figure 12.1 below graphically illustrates the difference between the income received and the assumed debt repayment in the base line analysis (Option 1a no adjustments).

Figure 12.1 Rental income received compared with annuity debt repayment



The figures assume indexation of 2.5% per annum over the 25 year period. In this scenario the total amount of additional income collected over the 25 year period is £16.98m, which is approximately £8.5m in today's prices. It is our understanding that this additional income will be used to part fund the interest payments on any additional borrowing the Council undertakes to fund the project.

Arena asset value

If the Council owned the arena asset it could be disposed of during or at the end of the lease term. Alternatively the asset will continue to create an annual revenue stream which can be valued on a commercial basis or used for subsequent Council borrowing. The revenue streams could alternatively be used as an investment from which the Council could support a level of service provision in its normal revenue activities.

The actual value of the asset will be dependent upon its financial performance during and over the term of the lease. In addition, a pattern of likely returns on the variable rents will also be created and this can subsequently be valued.

If the Council were to further create a car parking asset (through direct construction or a joint venture) this revenue stream could likewise be valued during or at the end of the initial operator lease term.

Development on the wider site

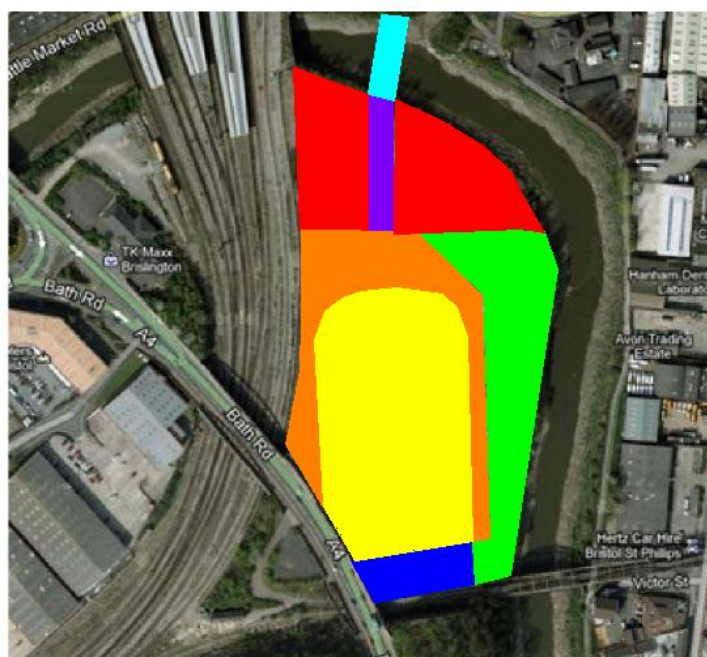
As set out earlier in this report, the proposed site for the arena is approximately 8.4 acres (c34,000sqm). The arena and associated facilities, i.e. the loading bay, 250 space VIP and staff car park and access, does not require the full 8.4 acres. Therefore, there will be a residual land area available for purchase/ development.

Table 12.4 sets out the approximate area, calculated at the feasibility study stage. Figure 12.2 illustrates the potential position on the site.

Table 12.4 Residual land area available

Arena configuration	Capacity	Arena footprint (sqm)	Residual land area (sqm)
Horseshoe	12,000	12,000	7,350

Figure 12.2 Indicative site layout – 12,000 capacity horseshoe



Key

Yellow	Arena
Green	250 space VIP and staff car park
Blue	Loading bay
Orange	External concourse/ circulation
Red	Residual land areas/plots

13. Procurement and delivery

Introduction

Should the outline business case be approved the project will quickly move into its procurement stage, commencing first with the operator, followed by the design team and finally the contractor who will build the arena. This section outlines the procurement options available and the recommended approach to procuring each of the partners for the Bristol arena.

Operator Procurement Strategy

Based on the work undertaken to date, the preferred option for the operation of the Bristol arena is a lease. This will transfer the responsibility for the operation of the arena to a specialist company and help to ensure that it is sustainable and successful. The lease will provide for commercial terms to include guaranteed payments to the Council that would be used to support borrowing to part fund the capital cost of the arena.

A lease could be let at any time during the arena development process. Historically, operators have been brought into the process after the specification, design and even construction have been progressed. This approach has not produced the optimum outcome, as the arena operator has had to 'make the best of' a building that does not necessarily operate efficiently for their business, and therefore makes it hard to maximise incomes and offer a strong commercial deal to the arena owners and good experience to audiences. In addition, the project foregoes the expertise of a specialist operator in developing the design. For example, an operator can provide advice on how to design the building to minimise staffing requirements for events and therefore reduce costs, something that other professionals in a design team could miss.

We recommend, as was the case in developing Leeds and Copenhagen arenas that the operator be procured at the beginning of the process. This enables the operator to input into the specification and design where necessary, in order to maximise the building's efficiency and maximise income, in turn allowing the operator to put forward a strong commercial offer. The operator would effectively be a 'pre-let' tenant for the arena. As with standard property transactions the tenant would sign an Agreement to Lease, which upon completion of the building will be replaced by the Lease Agreement.

To engage an operator at the early stage of the arena development process it is necessary to develop an outline Facility Specification/ Facility Requirements document. This document will set out the Council's requirements of the facility, including scale, capacity, layout, hospitality requirements alongside technical standards that it must meet. The operator should have the opportunity to comment upon this, and potentially suggest changes as part of the operator procurement process (the Council can accept or reject any suggestions). The Agreement to Lease and Lease will be based upon the Council delivering what has been agreed between the Council and the successful operator and documented in the Facility Specification document.

The Agreement to Lease sets out the responsibilities and requirements of the Council and the Operator in the period from contract signature to the commencement of the Lease. It should include a change mechanism to regulate any changes from the agreed Facility Specification, by either party, during the

design and development period. For example, if the operator requested a change that increased the capital cost, the Council could consider the change and either accept improved commercial terms or not agree to it, and the same would apply in reverse.

The Lease Agreement is likely to be a standard institutional lease on a full repairing and insuring (FRI) basis. It will include both commercial terms and provisions that will be agreed as part of the operator procurement process. The Council will need to consider its views on what these terms and provisions should be and the importance of/ balance between them in considering operator proposals.

EU procurement?

A lease is deemed to be a property transaction and therefore falls outside the definition of goods, works and services which are covered by the EU Regulations. Therefore whilst the operator tender process must comply with general public procurement and property transaction rules, it does not need to be advertised in the Official Journal of the EU (OJEU).

However, there are a number of reasons that the Council might decide to advertise in the OJEU and follow EU Regulations in full in any case, these include:

- the potential/ flexibility to include other types of contract that would fall under EU Regulations
- following the EU regulations could be seen as a positive, should the project encounter any State Aid issues/challenges.

Therefore, it is important that the Council gets legal advice on whether or not to procure the arena operator through an OJEU advert and process.

Competitive process

Whether or not the Council decides to advertised in the OJEU, it will hold some form of competitive process. This will be important to maximise the potential deal for the Council, and should prove successful in this recognising the high level of interest shown by the market.

The Council has the following options with regards to structuring the competition:

Open tender

An open tender is typically undertaken in a single stage. The project would be advertised, and a brief sent to all interested parties (no prequalification is required). Bidders would respond to the brief with a single submission, and there would not be any discussions with the bidders as part of the process. A preferred and reserve bidder would be selected on the basis of the submitted tenders and negotiations with these parties would be undertaken post selection. This approach is most typically used in straightforward/simple projects.

Restricted tender

A restricted tender process can involve multiple stages, and is typically used for specialist/ more complicated procurement procedures. Under a restricted tender, the project would be advertised inviting expressions of interest from interested parties. The expression of interest would include a pre-qualification

questionnaire, that would be evaluated and only parties with the requisite experience and financial standing would be invited to participate in the process. Either all parties with the requisite standing could be invited to participate or a limited number, say four or five, based on those most qualified (ranked).

Following pre-qualification the competition process can be formed of any number of stages, most typically one or two. An example of how a one stage and two stage process could work is set out below.

One stage

Pre-qualified parties would be provided with the project documentation and would be expected to provide a tender in response. We would recommend that a period of discussions with bidders is provided for, to clarify client requirements and respond to any bidder questions.

All bidders would submit tenders responding to the original project documentation. Bids would be evaluated and a preferred and reserve bidder selected. Negotiations would be undertaken with the preferred and reserve bidder post selection (note that this could not be done under OJEU Competitive Dialogue, as the contract needs to be agreed as part of the procurement process).

Two stage

Pre-qualified parties would be provided with project documentation and invited to submit initial responses at the first stage of the process. Discussions with each of the parties would take place, to confirm the client's expectations and answer any bidder questions.

Following receipt and evaluation of the initial responses, the client can short-list the highest scoring bids thereby reducing the number of participants to two or three organisations. The client can also identify any key issues arising for the project from the bids and address these in the second stage of the competition.

The project documentation would be re-issued (with potential changes to respond to key issues) to the short-listed bidders for a second round of discussions and a final tender submission. The benefit of the second round of discussions is that it can be used to develop draft legal documentation with a smaller number of bidders, in a competitive environment (as opposed to bidders being able to negotiate in a more secure position at preferred bidder).

The final submissions from the short-listed bidders could include Heads of Terms or fully developed legal agreements, alongside other project requirements (the latter conforming to the Competitive Dialogue OJEU process). These would be evaluated and a preferred (and potentially reserve) bidder selected.

Options analysis

This section provides an analysis of the procurement options identified, and provides a recommendation as to the approach that should be adopted for Bristol arena.

Key issues to consider in relation to the structure of the competition include:

- maximisation of the competitive process, to ensure the best commercial outcome
- minimising the potential for legal challenges to the outcomes (and is a process that could support any defence regarding State Aid)

- minimising the potential for the preferred bidder to re-negotiate
- ensuring that the process is transparent and fair
- ensuring that the process is not too onerous and therefore off-putting for bidders
- ensuring that the process makes best use of resources.

The table over the page sets out the advantages and disadvantages of the options identified.

Table 13.1 Assessment of procurement options

Option	Advantages	Disadvantages
Open tender	<ul style="list-style-type: none"> • shortest timescale for procurement • most accessible form of competition therefore maximises submissions • low cost for bidders 	<ul style="list-style-type: none"> • no guarantee of the quality of bidders submitting tenders • does not maximise competitive tension • less likely to elicit the best commercial offer • all negotiation is post selection – high potential for bidder to negotiate changes to tender • potential for misunderstanding of the project requirements • potentially high cost due to evaluation of large number of bids • longest timescale for post tender legal negotiations
Restricted tender – one stage	<ul style="list-style-type: none"> • bidders pre-qualified – can be assured of quality of the bidders in the competition • relatively straightforward process • shorter timescale than a two stage process 	<ul style="list-style-type: none"> • all bidders committed to the same level of input/expense, as there is no short-listing stage • majority of legal negotiation is post selection, potential for bidder to negotiate changes to tender (if undertaking legal pre-selection it would be a costly process for all involved and may be off-putting) • medium timescale for post tender negotiations
Restricted tender – two stage (could be Competitive Dialogue)	<ul style="list-style-type: none"> • bidders pre-qualified – can be assured of quality of the bidders in the competition • short-listing stage means that bidders will only expend costs when their chances of being selected are greater • least potential for changes/re-negotiation to the tender/ proposals post selection • maximises the competitive tension – and therefore commercial offers • ensures complete bidder understanding of the project and its requirements • allows the client to respond to bidder concerns/ issues as appropriate • shortest time for post-tender legal agreements 	<ul style="list-style-type: none"> • longer procurement process • may appear more complicated to some potential bidders • slightly longer, and therefore cost more for the Council • may be considered more of a commercial risk (time and investment) by potential bidders, with bids reflecting need to recoup this

We consider that the Council could use either a one or two stage tender process should the project proceed on a non-OJEU basis. However, should the Council decide to follow the OJEU route, then a Competitive Dialogue procedure would be recommended, that should follow a two-stage process, to avoid the requirement for all bidders to complete legal agreements. We expect to facilitate a discussion with the Council and its legal advisors regarding the above, to arrive at the best overall position for the Council.

Designer(s) Procurement Strategy

Contract structure

The key question when procuring designers is whether the Council would like individual control over the companies that provide each individual discipline, or whether they prefer to invite consortia bids where groups of companies join to bid for the full range of services.

For consortia bids the advantage is that there is only one contract to award and the companies usually have experience of working together through other projects. The disadvantage is that the various consortia usually contain members with differing strengths in their respective fields, and the Council cannot 'mix and match' between consortia, one must be selected and accept that they may not be the best company for all the different types of services required.

By breaking down the services into separate contracts the Council has complete control over who they select for each element of the design service required. This approach does however, mean perhaps six or seven contracts would need to be advertised and tendered, and the Council would be responsible for managing how the different companies work together. If issues arose in the design process, and the consultants blamed each other, the Council would be exposed to additional fee claims and be responsible for resolving the issues. Conversely, the consortia approach avoids these issues coming back to the client team by only having one contract and one lead design organisation.

Services

The scope of services required will be typical for the design of a construction project, but will need to contain bespoke elements relating to acoustics, pedestrian flow modelling, fire engineering and seating bowl sight line design services. The full range of services required will include:

- architecture
- structure and civil engineering
- building services engineering
- landscape architecture
- acoustic engineering
- transport engineering
- environmental engineering
- fire engineering
- façade engineering
- health and safety design management
- access consultancy services, including pedestrian flow modelling
- lighting design
- interior design.

This assumes that cost control and other non-design services including legal advice are procured separately by the Council.

Designer procurement options

There are several options for procuring the designers for the Bristol arena; the preferred route will be decided once a decision is made on whether to opt for a consortia contract or several separate contracts for individual disciplines.

The designer's services fall within the definition of services in the EU regulations and the value will exceed the threshold, therefore these services must be advertised in the OJEU and comply with EU Procurement Regulations. It is usual to use the OJEU Restricted Route, whereby a Contract Notice is placed, expressions of interest are received and evaluated, a shortlist is drawn up and tenders are invited, bids are assessed and a recommendation is made.

Another option would be to hold an architectural competition, which is permitted under the EU Procurement Directives. Such a competition would use the usual short listing approach to create a list of the most capable companies and then they would be invited to prepare designs for the arena, with the best design scoring the highest qualitative score and a commercial element then being applied to the level of fees submitted.

With arena development it is very important to employ an experience design and architectural team. Their specific experience should be in arena design or there is a significant risk of design failure and cost overruns. This will also impact upon the operator appetite for the project.

Designer procurement option analysis

Consortia or individual appointments?

We would suggest that interior design is included within the architectural scope to ensure that the interior of the building is integrated with and contemporary with its exterior. Likewise the landscape architecture could form part of the architectural scope, although we would expect architects to team up with landscape architectural practices if they are to deliver the depth of expertise required.

The remainder of services are largely engineering based and many of the large engineering consultancies can provide most, if not all, of these services in house. The engineering of an arena, be it the long span roof structure or the thermal modelling of the building, is complex and specialist, and it is important to make sure the very best engineers work on the project.

Most of the big arena architects have relationships with several of the big engineering companies, with one or two having distinctly closer alliances with particular firms.

Architectural competition?

The option to hold a competition has been outlined above. This option was highlighted during consultation and provides many advantages in terms of international publicity and fostering creativity. However, a design competition can be quite time consuming, and there is no guarantee of the successful entry being received from an experienced practice – a less experienced practice may feel obliged to stay with their winning concept as the scheme moves forwards, even if it is found that the concept is unsuitable once the full design process is commenced.

Contractor Procurement Strategy

The contractor's works fall within the definition of works in the EU regulations and the value will exceed the threshold, therefore these works must be advertised in the OJEU and comply with EU Procurement Regulations.

Basis and structure of contract

There are three primary methods of procuring construction:

- Traditional approach with full design before tender
- Design and build, with partial design before tender
- Management contracting or construction management.

Traditional procurement involves the Council retaining control of, and responsibility for, the design of the project through to completion. The advantage of this is that it allows full control over the detailing of the project and does not attract a risk premium for completing the design. The disadvantages are the level of risk retained by the Council in terms of the design and the site; and equally critically, the risk of the design team meeting the information requirements of the contractor in a timely manner. Traditional also typically has a longer pre-construction period due to the significantly more detailed design that is required prior to tendering.

Conversely, **design and build procurement** transfers the design, and typically other risks such as site conditions, prior to construction commencing. This offers the advantage of substantial design and site risk transfer prior to construction commencing, as well as the potential to commence on site earlier than with a traditional approach. The main disadvantages of design and build are the loss of control of the detailed design, which can 'dumb down' the detailing of the project, and the equitability of the risk premium paid to the contractor to complete the design i.e. if the contractor perceives that there are issues with the design, the risk premium may be disproportionately high.

A **management procurement approach** involves procuring the works on a package by package basis with the design being provided on a 'just in time' basis. This approach is great at getting works started on site quickly but does not provide any cost certainty until the works have been substantially progressed on-site; all design risk would remain with the Council.

Given the current economic downturn we are confident that appropriate contractors would be very interested in contracting on any of the three bases described above. The current state of the market also raises an issue in this respect; with a real possibility that contractors may bid for the project at, or below cost, and subsequently make claims during the construction stage to recover their margin. Adopting a traditional or management approach offers much more opportunity for a contractor to make a case for claims due to the design and site risks that sit with the Council. Design and build substantially reduces the risk of claims providing the Council has a detailed, comprehensive set of requirements that form the basis of the contract and there is very little change instructed during construction.

Contractor procurement options

The three primary methods of contracting have been outlined above, as has the need for the contract to comply with the EU Procurement Regulations. Therefore, the process of appointment will follow the OJEU Restricted

Route, with expressions of interest being sought and subsequently, tenders being issued to a select list of companies with the best track record in delivering projects of this nature.

Arenas are complicated projects and early contractor input can be beneficial to their design maturity and cost effectiveness. Early input can be achieved through a two stage appointment process; however a two stage approach to procurement carries a number of specific risks that need to be managed carefully. The following paragraphs describe the differences between single and two stage approaches and highlights the risks of the two stage approach.

Single stage or two stage?

The advantages of single stage, which involves obtaining tenders from contractors based on a complete price for the project, are that it is a clear and precise competitive process with all contractual and commercial matters being resolved in competition. The main disadvantages of this approach are the additional time it will take due to a prolonged tender period, the lack of contractor input up to scheme design stage and; the potential for the contractor to include substantial risk premiums for unresolved design issues or other perceived risks, that could have been addressed through the contractor working with the team in the second stage of a two stage process.

Another key issue with single stage procurement is that if the existing design team are not employed by the contractor to complete the design then design work effectively stops from when tenders are issued until the contractor is in place. This has a substantial impact on the programme.

The two stage process has been used extensively in recent years and is preferred by contractors as it offers time for them to gain a real understanding of the project and; as the package costs are tendered on an open book basis their exposure to risk is limited, whilst giving them some room for negotiation. Many clients have supported the two stage approach for two reasons; firstly, for complex projects it has been the only way that contractors have been prepared to be engaged, and secondly; early contractor input is perceived to drive out cost and uncertainty from the evolving design.

Whilst on paper a two stage route provides the potential to start on-site at an earlier date than a single stage approach; in practice the second stage period often gets extended. This is due to issues with package design information or package tender returns, or protracted final negotiations between the client and contractor to agree the contract sum.

A two stage approach has some disadvantages which all emanate from the exclusive position the contractor has during the second stage. Issues encountered typically include:

- erosion of risk transfer from the client to the contractor from the baseline set due to perceived new circumstances coming to light
- inflation of costs due to perceived issues with package tenders received
- additional risk premiums due to sub-contractor issues associated with them not accepting back to back contractual terms or being of questionable financial standing
- additional risk premiums due to the contractor perceiving that the design is not to the required standard.

A contractor can use these points to argue for an increase to their original tender baseline from a position of strength; if the client does not reach agreement with the contractor during the second stage the time and cost associated with aborting the appointment and appointing a new contractor are usually highly unpalatable to the client. We have developed a number of initiatives to minimise these risks, but they cannot be completely avoided.

Early contractor involvement

As an alternative, early contractor involvement can be obtained by introducing the contractor as a consultant at an early stage on a limited basis. It is often found that the value in this is limited to helping the design team understand how the logistics of the site will work. This is due to the contractor only being engaged in the early design stages when construction methodology and components are not under discussion. The contractor's consultant role ends just before the bidding process starts for the contractor to build the project, which is when the design is entering a more detailed stage. Unfortunately contractors cannot formally take part in this stage of development on a consultant basis as they would be deemed to be in a favourable position, which could result in a challenge from other bidders.

Design team novation

The design team that the Council employ could be novated to the contractor if a design and build approach is selected. The contractor then becomes responsible for the entirety of the design. This approach is called novation and ensures design continuity whilst minimising design risk to the Council. When considering the novation of the design team, this can also include the nomination of the design team.

The negative of novating the design team to the contractor is that the Council are left without any technical design advice, which is needed as the contractor develops the design when the Council would need to confirm their acceptance of the developed design. This issue is usually addressed by the Council engaging new consultants in a technical and compliance monitoring role, which does add cost to the project, but is the only way for the Council to have independent verification that the building meets its design criteria.

Contractor procurement Options analysis

An analysis of the advantages/disadvantages of each of the three options is shown below.

Table 13.2 Advantages and disadvantages of design and contractor procurement

	Traditional	Design and Build	Management (CM&MC)
Speed	Not the fastest of methods. Essential to have all design information at tender stage. Consider two stage or negotiated tendering	Relatively fast method. Pre-tender time largely depends on the amount of detail in the Employer's Requirements. Construction time reduced because design and building proceed in parallel	Early start on site is possible, long before tenders have even been invited for some of the works packages
Complexity	Basically straightforward, but complications can arise if employer requires that certain sub-contractors are used	An efficient single contractual arrangement integrating design and construction expertise within one accountable organisation	Design and construction skills integrated at an early stage. Complex management operation requiring sophisticated techniques
Quality	Employer requires certain standards to be shown or described. Contractor	Employer has no direct control over the contractor's	Employer requires certain standards to be shown or

	is wholly responsible for achieving the stated quality on site	performance. Contractor's design expertise may be limited. More difficult for the Employer to influence the choice of specialist sub-contractors	described. Managing contractor is responsible for quality of work and materials on site
Flexibility	Employer controls design and variations to a large extent	Changes made once the contract is signed will most likely incur a heavy cost penalty. Flexibility in developing details or making substitutions is to the contractor's advantage	Employer can modify or develop design requirements during construction. Managing contractor can adjust programme and costs
Certainty	Certainty in cost and time before commitment to build. Clear accountability and cost monitoring at all stages	There is a guaranteed cost and completion date	Employer is committed to start building on a cost plan, project drawings and specification only
Competition	Competitive tenders are possible for all items. Negotiated tenders reduce competitive element	Difficult for the employer to compare proposals which include for both price and design. Tendering on advanced design information can assist this though	Management Contractor is appointed because of management expertise rather than because his fee is competitive. However, competition can be retained for the works packages
Responsibility	Can be clear-cut division of design and construction. Confusion possible where there is some design input from contractor or specialist sub-contractors and suppliers	Clear division of responsibility, with the contractor usually being wholly responsible for the design and construction risks plus many site condition risks	Success depends on the Management Contractor's skills. An element of trust is essential. The professional team must be well co-ordinated through all the stages
Risk	Generally fair and balanced between the parties	Can lie almost wholly with the contractor	Lies mainly with the employer – almost wholly in the case of construction management
Summary	Benefits in COST and QUALITY but at the expense of TIME	Benefits in COST certainty and TIME but at the expense of QUALITY on complex sites and buildings	Benefits in TIME and QUALITY but at the expense of COST certainty

Summary

Whilst design and build is described as having issues in delivering the level of quality required for a complex building this is a general statement; by developing the design to a high level of detail before handing it to the contractor, and novating the design team to the contractor to complete the design, high quality can be achieved.

On this basis a design and build approach is recommended for Bristol arena with the design developed to a high level of detail prior to being handed to the contractor. We recommend that the OJEU Restricted Route is used with a pre-qualification stage and then a two stage approach to appointing the contractor, due to the likely complexity of the building and the value the contractor can bring to the design process.

Also a two stage approach allows the real market price for the works to be established, so any bidding below cost will be transparent and can be addressed to make sure that quality is not eroded on-site to recover the negative margins made in tenders. The dangers of the two stage approach need to be addressed through tight control of documentation and also perhaps through holding a second bidder in reserve until the end of the second stage of the tender process.

We also recommend that the designers are novated to the contractor to maintain design continuity, with technical compliance monitoring being undertaken by a shadow team appointed by the client group after novation of the existing team has occurred. This could be done at the start of the second stage or at its end. We would favour the start so that the contractor is responsible for making sure the design team produce the scheme design information for tender in a timely and co-ordinated manner.

14. Project risks

There are a wide range of risks that can affect the deliverability of a new arena in Bristol. This report focuses on those risks which are specific to the project and carry a high level of probability of occurring and/or a high impact if they do occur. This assessment of project risk has been developed from Davis Langdon and IPW...’s combined industry experience, the Council’s own risk register (included in Appendix G), together with additional information specific to Bristol gathered from consultation as part of this project.

Table 14.1 below shows our view of the key risks associated with the project. This table also describes the likely timeframe for these risks and the strategy for managing them.

Table 14.1 Key project risks – Bristol Arena

Description	Likelihood	Impact	Impact	Strategy
Project funding plan not approved	Medium	High	Project is not viable/ does not move forward	Proceeding on the basis the project will be funded by prudential borrowing paid back via business rate growth from the TQEZ - no formal agreement in place for City Deal, and no cabinet paper to approve spending the prudential borrowing and giving permission to proceed. This issue needs to be addressed at LEP/Project Board level. To be taken forward via Project Board meetings
Gap funding is not achievable-	Medium	High	Project is not viable/does not move forward - BCC incurs abortive project development costs	Early discussions had between project partners to determine appetite and potential to meet gap funding requirements
Car parking income deal is not secured	Medium	High	Increased residual funding requirement.	Continue to develop a commercial element to the TQEZ car parking strategy. Ensure that the arena project is represented in meetings and briefs regarding the wider parking strategy
Operator rental streams are not achieved	Medium	High	Yearly rental payments do not meet the business case projections	Ensure appropriate procurement process to maximise interest and commercial deal. A lease agreement would mitigate this risk from the point of signing the Agreement to Lease

Description	Likelihood	Impact	Impact	Strategy
Business Plan future proofing	Medium	High	Market trends alter during the period of the business plan and impact on the business case	Ensure financial model is as robust as possible include sensitivities in projections- ensure design of the Arena offers maximum flexibility to accommodate future market trends. A lease agreement would mitigate this risk from the point of signing the Agreement to Lease
Arena design and programming deviates from accepted market position	Medium	High	Increases project risk e.g. desire to "Bristolise" the project creates uncertainty and complexity for potential Operators.	Listen to the operator feedback on "accepted" market position and approaches. Engage operator as early as possible in the design process and clear parameters included in the design competition
Arena market is saturated and Bristol faces stiff competition to attract acts	Medium	High	Ability to achieve business case projections & arena viewed as underused	Transfer operational risk to operator for a fixed annual payment. Incentives included in the contract
Value of arena site changes – current assumption is zero value	Medium	High	Risk of additional gap of up to £5m appearing in the business case.	AO/Project Board to take forward discussions with the HCA related to the site, this to include the value of the site and also our expectation- that the HCA will fully service the site with Utilities to boundary
BCC do not secure site acquisition	Medium	High	Project could become unviable or delays in the project	AO/Project Board to take forward site acquisition with HCA for resolution
Arena acts compete directly with existing Bristol venues	Medium	High	Existing venues struggle to achieve own events programme	Work to ensure that venues can react to any changes in product availability, caused by the arena or other developments
Cardiff proceeds with plans to develop a new arena	Medium	High	Could affect the viability of an arena in Bristol and the level of commercial deal that could be achieved with an arena operator.	Progress with Bristol development faster and retain larger capacity plans
Insufficient operator interest	Low	High	Failed operator procurement or "poor" outcome	Listen to operator views on design, procurement and operation. Make the project attractive to the market

Description	Likelihood	Impact	Impact	Strategy
Master plan for diesel site is not developed quickly enough	Medium	High	Arena will not fit with infrastructure development	Needs to be in place by Feb or March 2014, need to confirm masterplanning is not part of the Design Competition. Begin to develop masterplan via HCA and their framework- build on spatial framework and fit it into design competition. This work is due to be finished in September 2013
Site Contamination	Medium	High	Discovery of this at a late stage will impact on programme and there will be cost implications.	Ensure full site information pack is available for contractors, and is comprehensive. Commission any studies that have not been done in conjunction with TQEZ Programme Manager. Identify a lead for supplying technical advice to the project
HCA fail to deliver infrastructure to time or quality	Medium	High	Slippage to programme or additional bid costs	6-8 month float on the bridge programme so currently low risk. Obtain utilities loadings for arena and ensure contractors on board to deliver- sign MOU or similar with HCA
Additional project costs identified	Medium	High	Cost of the project and the residual funding gap increases.	Continue to identify all likely costs. Work to identify third parties to meet any non-arena costs
Construction costs exceed projections	Medium	High	Increased residual funding requirement	Control expectations, ensure specification is functional, and monitor key cost drivers
Project programme includes no potential for slippage	Medium	High	Will need a number of "best case" scenarios to occur to deliver. Reputation of the Council if delay.	Cost consultants to review programme to ascertain how realistic it is. Seek to speed up parts of the Programme. Assess outcomes. Team to raise issues promptly with Board to enable rapid decision-making
Major refurbishment is required at the end of the lease	Medium	High	Building not fit for purpose, impact reputation of the arena, limit customer experience/spend	Ensure that the asset is returned in a reasonable condition at the end of the lease. Potential to include any future refurbishment costs in any new lease arrangement, or the Council could borrow against future revenues
Public Relations risk of failure	Medium	High	Council and its partners perceived negatively if the project does not move forward/ is not successfully delivered	Follow a best practice in project delivery. Continue to test viability at each project milestone. Develop a communications strategy with briefing of stakeholders at key stages

Lack of political support	Low	High	More challenging to deliver the project, particularly to make challenging decisions	Engage with Politicians to ensure support is retained
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15. Summary, recommendations and next steps

Summary

Building upon the findings of the feasibility study, the OBC has demonstrated the following:

- continued strong stakeholder support for the project:
 - stakeholders would like the project to have a Bristol flavour and be for/loved by local people
 - the concept of a theme for the arena was not widely well received
 - maximising use of the venue on non-event days was considered important.
- continued strong market interest from arena operators and promoters
- positive market demand for an arena in Bristol of between 10,000 and 12,000 capacity
- a horseshoe configuration is the most appropriate for Bristol
- the potential for an arena to be developed in Cardiff still presents a risk to the project
- it is important to explore all forms of management for the arena.

Following the consultation process and market assessment, six options were identified for assessment. These are set out in Table 15.1 below. The base facility mix for all options is a 12k capacity (seated and standing) horseshoe arena (which equates to 10,000 capacity fully seated). The only facility option is the addition of an additional 1,000 sqm of space to facilitate additional and more cost effective community use on non-event days. The options a-c relate to the different forms of management considered.

Table 15.1 Options

Option	Capacity/ configuration	Additional facilities	Management
1a	12k horseshoe	None	Lease
1b	12k horseshoe	None	Management Agreement
1c	12k horseshoe	None	SPV
2a	12k horseshoe	1,000 sqm for community use	Lease
2b	12k horseshoe	1,000 sqm for community use	Management Agreement
2c	12k horseshoe	1,000 sqm for community use	SPV

A full options appraisal was undertaken, including qualitative and financial criteria, weighted 40% and 60% respectively. As part of the financial assessment Optimism Bias and a risk adjustment were made to compare options.

The outcome of the appraisal is shown in Table 15.2 overleaf.

Table 15.2 Options appraisal

	Option 1a	Option 1b	Option 1c	Option 2a	Option 2b	Option 2c
	12k Lease	12k Man Agreement	12k SPV	12k +1,000 sqm Lease	12k +1,000 sqm - Man Agreement	12k +1,000 sqm Lease
Qualitative assessment (40%)						
Fit with overall vision (10%)	6.0%	8.0%	8.0%	6.0%	8.0%	10.0%
Deliverability (10%)	10.0%	8.0%	6.0%	10.0%	8.0%	6.0%
Community use (4%)	1.6%	2.4%	3.2%	2.4%	3.2%	4.0%
Council control/ input (8%)	1.6%	4.8%	8.0%	1.6%	4.8%	8.0%
Risk transfer (8%)	8.0%	4.8%	0.0%	8.0%	4.8%	0.0%
Sub-total (out of 40%)	27%	28%	25%	28%	29%	28%
Financial assessment (60%)						
Gap funding requirement	60.0%	58.5%	44.0%	57.5%	56.5%	40.8%
TOTAL	87.2%	86.5%	69.2%	85.5%	85.3%	68.8%
RANK	1	2	5	3	4	6

Based upon a thorough qualitative and financial analysis, the preferred option for the project is Option 1a, a 12k capacity horseshoe configured venue operated under a lease agreement with the private sector. This option provided the lowest risk adjusted gap funding requirement of £67.4m (the range went up to £88.9m). The base case for the preferred option (excluding the Optimism Bias and risk adjustment) presents a gap funding requirement of £52.4m.

Recommendations and next steps

We recommend the following:

- that Option 1a (12k capacity horseshoe arena operated via a lease) is adopted as the preferred option for development, based upon the findings of this OBC
- that the Council agree to market the arena lease shortly through a competitive process (final format to be agreed), and commence preparing procurement documentation
- the operator procurement process includes the ability to explore how to maximise the community use of the venue through operator proposals
- that the Council begin to plan its approach to the design and construction procurement and design competition
- that the Council continues to develop a car parking strategy for the wider TQEZ site, to ensure that the financial impact of the arena can be minimised
- that the Council continue to explore mechanisms to deliver the project gap funding requirement.

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